TrueBlue, Inc.
Third Quarter 2023 Earnings Call
October 23, 2023

COMPANY PARTICIPANTS

Taryn Owen – Director, President, and Chief Executive Officer
Derrek Gafford – Executive Vice President and Chief Financial Officer

OTHER PARTICIPANTS

Jeff Silber – BMO Capital Markets (Analyst)
Kartik Mehta – Northcoast Research (Analyst)
Marc Riddick – Sidoti & Company (Analyst)
Mark Marcon – Baird (Analyst)

MANAGEMENT DISCUSSION SECTION

Operator

Greetings, and welcome to TrueBlue Third Quarter 2023 Earnings Call. [Operator Instructions] It is now my pleasure to introduce your host, Derrek Gafford, Chief Financial Officer. Thank you, Derrek. You may begin.

Derrek Gafford

Good afternoon, everyone, and thank you for joining today's call. I'm joined by our President and Chief Executive Officer, Taryn Owen.

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 our 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.

I do want to highlight one change involving the tax impact of our adjustments when calculating our adjusted net income measure. We will now be tax-affecting all taxable and deductible adjustments using our statutory rate of 26% versus our prior method of tax-affecting adjustments using our blended effective income tax rate, as we believe this provides investors with more useful insight.

For your convenience, we have provided a reconciliation of U.S. GAAP net income to adjusted net income, and adjusted net income per diluted share using this approach for all prior quarters and years back to 2021 on the financial results page under the Investor Relations section of our website. 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.
Okay. Let's now turn the call over to Taryn.

Taryn Owen

Thank you, Derrek. And welcome, everyone, to today's call. We appreciate you being with us. Revenue for the quarter was $473 million, down 18% compared to the prior year. Our results are reflective of a challenging environment in staffing and recruiting. Across most TrueBlue verticals and geographies, our clients remain cost-conscious and selective about the temporary and full-time positions they choose to fill.

Our teams are staying highly engaged to help our clients navigate this uncertainty and to ensure we are poised to support them when their staffing needs expand. We are being proactive with our sales approach by leveraging our playbooks and centralized teams to capitalize on every opportunity, and we have a particular focus on high-growth verticals and under-penetrated geographies nationwide. Additionally, we are pursuing shorter-term projects and offering flexible solutions to clients in order to meet immediate needs while positioning us for future expansion opportunities.

Along with our current focus, we remain highly committed to our longer-term strategic priorities, including advancing our digital capabilities to position us to gain market share. For instance, we are enhancing our JobStack and Affinix platforms to drive greater efficiency and improve the client, associate, and candidate experience. We're also committed to expanding both our scope and our footprint.

For example, within staffing, we're focused on high-growth sectors such as renewables and skilled labor placements. Within RPO, we're focused on high-growth verticals such as healthcare, as well as diversifying into higher-skill placements and more specialized product offerings. Gaining market share in under-penetrated geographies is also a focus across our driver, skilled trades, and RPO businesses.

While industry demand is currently subdued, the long-term outlook for staffing remains positive, and we are well-positioned to capitalize. We have deep expertise in staffing and RPO, a strong footprint, leading technology, and significant resources. Our team is incredibly talented and committed, our values are strong, and we have a compelling mission. TrueBlue provides a vital service, and we remain ready to serve our clients' immediate and future needs.

Before I turn it over to Derrek for further discussion on our results, I want to take a moment to thank him for his leadership and numerous contributions to TrueBlue during his more than two decades with our company. He has built a digital and people-first finance organization with a deep talent bench that will continue to serve us well, and our entire organization is grateful for his contributions. Thank you, Derrek. I'll pass the call over to you now.

Derrek Gafford

Thank you, Taryn. Demand for our services continues to be soft as businesses of all sorts face a tough balancing act. On one hand, labor pools remain tight, and businesses recognize how critical retaining talent is in today's environment. On the other hand, businesses have seen significant increases in pay rates, particularly with positions at the lower end of the pay scale.

In an attempt to further manage labor costs, businesses are taking action. they are asking their existing employees to do more. They are also being more selective on the roles they choose to fill and more judicious in their use of human capital providers. These factors, coupled with uncertainty about the trajectory of their future workforce needs, are some of the underlying factors impacting our demand as well as the demand for the broader staffing market in the U.S.

Total revenue for the quarter was down 18%. Revenue growth for the quarter came in 4 points short of our midpoint expectation, driven by softer than expected trends in August and the first half of September. Looking at the second half of September and into October, we are encouraged to see that the weekly sequential revenue trends for the staffing side of our business are in line with historical patterns.

From a net income and loss perspective, our results were roughly break even this quarter, down from net income of $21 million in Q3 last year. Included in our results for the quarter are $2 million of costs associated with our CEO transition. Adjusted net income was $5 million, down from $24 million last year, while adjusted EBITDA declined to $10 million versus $35 million last year.

Gross margin of 26.2% was down 90 basis points. This was driven by a revenue mix increase in PeopleReady's renewable energy business, which carries a lower gross margin than the blended business due to the pass-through travel costs associated with the business, as well as a decline in the revenue mix of our highest margin business, PeopleScout.

Workers' compensation as a percentage of revenue was higher due to less favorable development in prior-period reserves than we received last year. These factors were partially offset by disciplined pricing in our PeopleReady business, which delivered its tenth consecutive quarter of positive spread between bill, rate, and pay rate inflation.

SG&A decreased 3% for the quarter. Adjusted SG&A decreased 5%, which we believe will also be the case for Q4 this year, excluding the impact of the extra week associated with our 53-week fiscal year. We remain focused on managing costs to enhance our profitability, while maintaining our operational strengths and readiness to increase our market share when demand rebounds. We recognized an income tax benefit of $2 million this quarter due to the favorable impact of job tax credits.

Now, let's turn to the specific results of our segments. PeopleReady revenue decreased 15%, while segment profit decreased 66%, and segment profit margin was down 520 basis points. The retail, transportation, and service industries continue to be our most challenging verticals, while our renewable energy business continues to have solid growth.

We are also seeing greater resilience in our small to medium size customers compared to larger, national accounts. Being disciplined with our pricing is an important priority to help cover the inflationary pressures in our SG&A expense. The business produced another quarter of positive spread between bill and pay rate inflation with bill rates up 6.9% and pay rates up 6.1%.

PeopleScout revenue decreased 32% while segment profit decreased 41% and segment profit margin was down 200 basis points. We would characterize the RPO demand environment as soft, with clients continuing to be selective with the roles they choose to fill, some initiating or continuing hiring freezes, and others attempting to use internal resources to fill jobs.

Also playing into this are employee quit rates in the United States. Quit rates have consistently drifted lower throughout 2023 as more employees choose to remain in their current jobs, resulting in less employee churn for our customers. Despite the margin contraction, the PeopleScout business produced a healthy segment profit margin of 12%. PeopleManagement revenue decreased 16% while segment profit decreased 52% and segment profit margin was down 110 basis points.

Now, let's turn to the balance sheet. Our balance sheet is in good shape. We finished the quarter with no debt, $47 million in cash, and over $120 million of borrowing availability.

Before we wrap up, I'd like to take a moment to provide additional color on a couple forward-looking items. First, similar to 2016, I want to remind everyone that our fiscal fourth quarter this year will include a 14th week, which is expected to add incremental revenue of $17 million to $22 million and a slight headwind on profit due to the low seasonal volume.

Second, we expect a revenue decline of 19% to 15% on a comparable 13-week basis. While we are encouraged by the fact that the most recent weekly revenue trends on the staffing side of our business have followed historical expectations, it's too soon to tell whether the trend has staying power. For additional details on our outlook, please see our earnings presentation posted to our website today.

As we think about planning for 2024, it comes down to staying disciplined. We have been focused with our pricing and cost management actions while preserving our operational strengths, and we plan to continue this course in 2024. We are also prepared to take additional cost management actions, should the operating environment become more challenging.

Now, on a personal note. While this will be my last month as CFO, I will be staying on through the end of this year as an advisor to help ensure a smooth transition. It has been a pleasure to serve our employees, our customers, and the investment community over my 20-year tenure here.

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

QUESTION AND ANSWER SECTION

Operator

[Operator Instructions] Thank you. Our first question comes from Jeffrey Silber with BMO Capital Markets. Please proceed with your question

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Jeff Silber

Thanks so much. And before I start, Derrek, I just wanted to wish you the best of luck, and thank you for all your help over the past 20 years or so. Wow, it's been a long time. I know there's somewhat of a lack of visibility in your space, but the last couple of quarters seem to have been especially tough in terms of the guidance. Is there anything different going on in the business or the competitive environment that's making it more difficult to provide this guidance?

Derrek Gafford

I don't think so, Jeff. You know, the way we take a look at the guidance as you've noted, the visibility in our industry and particularly with some of our staffing brands and our niches are even less visible than many parts of the staffing market. So the way that we're taking a look at things is, we take a look at the trends that we see coming in to--setting the guidance into--right, here before the conference call and we just kind of really call the shot on how things are trending.

We don't try to build in something extra that might turn up or something that might turn down, unless we've got a reasonable probability of something that's kind of on our mind or we're seeing a little sign tick up. And so what we really saw this quarter was, you know, July came out just about like we thought. And then as we went into August, things really kind of took a step down, particularly in PeopleReady, also at PeopleScout. PeopleManagement management pretty much hung in there.

And so what we saw were the retail industry, the transportation industry and, to a lesser extent, the manufacturing industry vertical, as we came into August, all three of those actually didn't live up to what we would normally see from a sequential step-up perspective. That's really what threw us off the mark, and we didn't see that one coming. That continued a bit into September, and then we really saw things kind of rally back at the end of September.

A matter of fact, as we went into September, all of those verticals that I talked about that took a step down actually took a step forward above their sequential revenue run rate with the exception of retail. We had a couple of other industries that bounced back nicely as well. And so going into October, we look back at the last five weeks for our staffing businesses.

Everything has been right in line with historical sequential trends. And as we set the guidance and the outlook for this quarter that we're going into, the fourth quarter, we have made the assumption that that's going to continue.

Jeff Silber

Okay. That's helpful. A few times in the prepared remarks, you talked about cost management. Can we get a little bit more color in terms of where you think that cost management will be coming?

Derrek Gafford

Well, sure. Well, let's talk about what we've done so far this year. And so I'm going to talk about where our cost actions have been this year in comparison with what our budget was coming into the year, which would have been really our outlook that we first shared with you for the year when we talked to you in February this year.

We've cut out about $35 million of costs. Not all of those costs are running through SG&A, though. A fair amount of those are running through cost of sales. In fact, we're down about 1,200 people this year from where we first started, about three-fourth of those in the PeopleScout brand.

And keep in mind, when I say some of these costs are running through cost of sales because if they are recruiting actions, that's a cost of sale item for us. That's where we book it at PeopleScout, not down the SG&A line. So you're not seeing some of those. And then, you know, we've had about $10 million of what we would consider unique costs related to the severance and the workforce restructuring actions that we've taken.

We also had some CEO transition costs that have negated those. But once we get past those, those are all built into our run rate. We've also had some things with medical inflation that have worked against us, so you're not seeing all of it. But those are the cost actions that we've taken so far this year.

As we look forward to 2024, as I alluded to in the prepared remarks, the company's really preparing for it to be a really disciplined planning exercise. And what I mean by that is, there's probably a 50% chance that things get better next year for this industry, maybe there's a 50% chance things get worse. Hard to say. With those kind of odds though, it just plans to stay really disciplined and focused on the downside plans that are harder to pull together, is what the company is doing.

We think there can be some more gains made in some of the basics on cost management, like I just recapped for you, that we did in 2023. And also some things in lowering the service delivery costs for the company, some through centralization, some through some process and some technology actions. The company will be able to give you more color on those specifics, though, after we finish our planning for 2024 and come in to talking to you about the fourth quarter results in February.

Jeff Silber

All right. Great. If I could just sneak in one more follow-up question. I just want to--just clarify the guidance. So the $450 million to $475 million is on a 13-week basis, but since there is a 14th week in the quarter, we need to add $17 million to $22 million on top of that to get to $467 million to $499 million. Is that correct?

Derrek Gafford

Yes, that's exactly right. And so we think it's the easiest way--we don't like these 53-week years any more than all of you do. But we think that with some--we've had some practice over time. We think the easiest way is to provide things on a 13-week basis and we'll kind of give it to you both ways so that it's more comparable to our other results. But from a GAAP perspective, you need to do exactly what you just mentioned. Add in that 14th week to revenue. Don't add anything else on the bottom line. It's a real low seasonal quarter. If anything, it's slightly decretive to the quarter and the year.

Jeff Silber

Got it. Okay. Thanks again.

Operator
Thank you. Our next question comes from the line of Kartik Mehta with Northcoast Research. Please proceed with your question.

Kartik Mehta

Thank you. Derrek, I know you maybe you already mentioned this, and if you did, I apologize, but you talked about latter part of September kind of firming up. I'm wondering, the first few weeks of October, if you saw those trends continue or if you saw anything different than what you might have anticipated?

Derrek Gafford

Yeah. So let's talk about things on from a year-over-year perspective and then talk to you about run rate, how things are looking. So and we might as well just talk about what the trends were for the quarter because sometimes that's on people's mind. So for the quarter, revenue was down 18%. Every month during the quarter was right around 18%. So very steady from a year-over-year decline perspective.

As we come through the first three weeks of October, the revenue declined. Now this is for our staffing businesses, we only bill RPO, the PeopleScout business monthly and provide those metrics on a monthly basis. But for our staffing businesses, through the first three weeks, we were down 14% year-over-year.

Now, if we take a look to the middle of September through the third week of October from a sequential perspective, run rate perspective in our staffing businesses, all of those were ramping up as we would expect with historical standards. So you saw in some of our prepared remarks in our press release that we've seen potential signs of stabilization. That's really what we're referring to. So we're encouraged by that. We're not banking on it, but we're encouraged by it. And that's kind of the latest from the most recent trend perspective that we can share with you.

Kartik Mehta

And I know you mentioned some of this already, but curious on demand by end market. I know you already talked about a few where things are weren't progressing, but then you also said you had a couple of where things were going well. So just thoughts on the end market.

Derrek Gafford

Well, yes, the question had come up, I believe Jeff had asked it, kind of asking about guidance and kind of what had happened in the quarter. And so that was the explanation of that. And so I think the main takeaway is what we've seen in the stabilization of our trends from a sequential perspective. Really, all of those are looking good with the exception of retail.

We've actually got some that are performed a little better than we expected, most kind of at expectation. The one call out, if we wanted to go on the negative side, would be retail. That one continues to weaken, but we've got some others that are strengthening and enhance overall really the sequential trends are right in line with historical averages.

Kartik Mehta

Perfect. And then just one last question. As you look at your segments, and you talked a little bit about the staffing business being down about 14%. Just expectations of the other two business as you look at the segments.

Derrek Gafford

Yeah. Well, if we're talking about the fourth quarter, I'm just going to go off midpoints. We've given ranges but to quote less numbers, I'm just going to give you midpoints, okay? So the midpoint of our outlook for the fourth quarter is for the company to be down about 17%. That's 15% for our two staffing segments, PeopleManagement, PeopleReady, and about 30% for our RPO business at PeopleScout.

Kartik Mehta

Perfect. Thank you so much, Derrek. I really appreciate it.

Operator

Thank you. Our next question comes from the line of Marc Riddick with Sidoti. Please proceed with your question.

Marc Riddick

Hi. Good evening, everyone.

Derrek Gafford

Hey, Marc.

Marc Riddick

Just wanted to first thank you for everything and all of your assistance, Derrek, over the years, and certainly looking forward to, you know, moving forward and hope all goes well that you're looking for there. And I did want to just sort of touch a little bit on revenue mix that you touched on in the prepared remarks. Maybe you could shed a little more light on the renewables commentary and the sort of the pass-through effect and how that sort of plays into the revenue mix impact. And then I have a quick follow-up on cash flow.

Derrek Gafford

Yeah. Well, when we're talking about the renewable space, that has been a bright spot for us. And so if we're talking on a year-over-year basis, renewable energy for us was up about 80%. And so that's continuing to be a really strong dynamic for us, not just on a year-over-year basis, but each quarter sequentially, we've been building some run rate there. So our renewable energy for the third quarter was about $40 million in total.

Marc Riddick

Okay. Okay, that's definitely helpful. It seemed as though there would have to be a nice gain there to have that--have the mixed impact there. I was wondering then if we could sort of follow up on cash flow and cash usage prioritization. I know certainly that having a clean balance sheet in challenging demand times is certainly very advantageous. Is there anything that we should be thinking about as far as internal investments that are on the horizon for the digital capabilities or is there anything lumpy that we should be thinking about as far as any potential needs in the coming quarters?

Derrek Gafford

No, nothing really lumpy out there. You know, from a cash flow perspective, and a use of capital perspective, investing back in the business, that has been our priority, both from an operating expense perspective, use of capital as well as from a CapEx perspective, largely in technology. So the company is still very focused on digitally transforming the business.

There's a lot that we have to be excited about there and some improvements that are being made and more to be done in the future there. So we're going to stay true to those. That doesn't mean we might trim some of that back going into next year, depending on what conditions look like.

Outside of that, our next favorite spot is in returning capital back to shareholders. We think that the prices for the stock have been pretty advantageous this year. We bought about--we look at this both in total dollars and as a percentage of market cap. And so this year, we bought back about 5% of the market cap. That's pretty much in alignment with where we've been in most years. We still want to keep that balance sheet really strong. As you know, we've got a lot of operating leverage in this business, which is great when revenue is on the way up.

In more challenging times, that--that operating leverage works against us. And it's important for us to not have financial leverage on top of negative operating leverage. So we're going to stay disciplined on that part. That's--we're not ruling out any more share repurchases, just kind of giving you some thoughts about it.

From an acquisition perspective, that is something we're taking a look at in the future. We've talked about tuck-ins in the RPO space. Really the main priority right now, though, is just running the business, recovering the business, business development from a staffing perspective and RPO perspective, less focus on acquisitions at the current moment.

Marc Riddick

Okay. Great. And then the last thing, I'd be remiss if I didn't sort of ask about the announcement that came out after the close on the addition of the Chief People Officer. So I was wondering if you could maybe shed a little light on that and talk a little bit about that.

Taryn Owen

Sure. Thank you, Marc. This is Taryn speaking. I would just say, overall, I'm incredibly impressed with the support and strength of our leadership team overall. And certainly glad that you saw the announcement regarding our new Chief People Officer. Greg Netolicky joined us today. Actually, it's his first day. He brings to us outstanding experience in all aspects of HR, so really looking forward to the contribution he'll make to us as we move forward here.

Marc Riddick
Great. Thank you very much.

Operator

Thank you. Our next question comes from the line of Mark Marcon with Baird. Please proceed with your question.

Mark Marcon

Good afternoon and let me extend my thanks to Derrek. It's been great working with you over the last 20 years, Derrek. So really appreciate everything that you've done.

Can you talk a little bit about the PeopleScout business? There's commentary with regards to -- some clients have been pulling back, some are pulling, you know, resources in-house. Can you talk a little bit about, like, what percentage of the clients are just pulling back their volumes versus what percentage are bringing things in-house? And can you also describe what are you seeing in terms of new RFPs and, you know, any line of sight in terms of decisions that could be coming up and how you're thinking about win rates and your competitive position in that particular space?

Taryn Owen

Sure. So Mark, the--in the PeopleScout business, the primary driver here is reduced volumes within our existing customers. And where our customers have relied more on internal resources, it's really around the focus on keeping them busy and retaining that internal talent acquisition team during a time of a hiring slowdown. So we're certainly still engaged with those customers and ready to support them as their needs increase, but they're really focused on ensuring that they're able to keep their internal recruiters retained and busy during this slower time.

So we're seeing across the board lower hiring volumes. Some of our customers are on hiring freezes or have initiated additional approval requirements in the hiring process to just slow that overall process down, as they look to gain more insight on what their future needs may be.
From a sales perspective, the pipeline, I would say, just from an average deal size perspective, is just down, in terms of what we are accustomed to seeing. Last year, our average deal size was about $3 million in the pipeline. It's $1 million now, and the deals are just taking longer to close.

We are seeing some activity in our shorter-term solutions with PeopleScout. We offer a service called Recruiter On-Demand, where we're offering recruiters to supplement in-house recruiting teams and project RPO solutions. So we will provide those kind of solutions to stay engaged with customers and can expand upon those relationships and opportunities when the rebound--when their needs rebound.

Mark Marcon

And then, Taryn, what percentage of your current clients are just going through that lower volume versus what percentage of the clients, you know, have gotten down to the point where they're just--they don't have needs beyond their internal resources, but they're still keeping you, and, as a vendor, should the needs come up? And so to what extent, if any, did you lose any clients completely?

Taryn Owen

Yes. It's a small--it’s a small percentage. Just a couple of customers that have taken--where we don't have any volume whatsoever with them at this point.

Mark Marcon

Okay. Great. And then, you know, if the environment--it doesn't sound like you're saying that things are stabilizing or picking up. Maybe that's just because we typically wait till the end of the month before determining where things are. But you gave favorable commentary on the--on the PeopleReady side, about a couple of segments like manufacturing and transportation showing a little bit more stability, but you didn't say anything like that on the RPO side. If things continue to trend down, how should investors think about, you know, kind of the margin range? And how much room do you have in terms of cost management on that side?

Derrek Gafford

Mark, I'll take that one. Yeah, we did talk about seeing some potential signs of stabilization in our staffing businesses. We have not seen that yet with PeopleScout. However, I don't think that we would expect to see it. One, the stabilization, if we want to even call it stable, this has been a short period on the staffing side. So as we said before that we're seeing it now, too soon to tell whether it has staying power.

However, our experience has been through, you know, multiple cycles. This is where we would start to probably see stabilization first is on the staffing side. Just like we would expect to see staffing kind of go first and then perm placement follow, we would expect to see things stabilize and improve on the staffing side and then PeopleScout tend to follow.

When it comes to the margin profile, you know, you can see even with this drop off, we turned in a 12% segment profit margin. And so out of all of our businesses, this is where it's the most variable from the standpoint that we don't have branch locations here that have to be staffed to keep running. We don't have on-site operations. There are minimums there.

Now there are certain minimums, too, when it comes to RPO clients, but there's more flexibility there. So we still turned in a 12% margin. You've heard some of my statistics earlier about the number of folks that we've had to downsize from to protect those margins. And there's more that we think we can do if we need to, both from a people perspective, a service celebrity perspective, and a technology perspective to try to keep that margin from falling into a single digit, at least on an annual basis. Quarters can be lumpy, but on an annual basis, we think we got a good shot at keeping that at 10% plus.

Mark Marcon

Okay. And I mean--I mean, even during 2020 with COVID, you were able to, by the fourth quarter, get to like, you know, 11% margin. Obviously, there was a huge hit in Q2 and Q3 of 2020. But is that kind of a--when we think about like the fourth quarter of 2020, when you were running at $41 million, does that seem like--kind of like--that's as about as low as the margins would go? Or could we go into the single digits, do you think?

Derrek Gafford

Well, I guess we'll have to see what happens, you know, from an operating environment perspective. You know, if things were to get in another bona fide recession on top of where we're at right now, we could see single-digits. I think what we're looking at right now, with the run rate that we've got, and with a little slippage in place, we feel like we can make some adjustments with still positive GDP out there to do what we've just talked about, keeping it out of the single-digit realm.

Mark Marcon

Okay. Great. And then with regards to PeopleReady, in terms of, you know, in terms of the digitization efforts, can you give us an update in terms of JobStack and some of the statistics?

Taryn Owen

Sure. Happy to do that. JobStack certainly has continued to be a critical component of our PeopleReady business. We have about 90% of our associates utilizing the app and 300-- 30,000 customers that engage at any given time. As Derrek mentioned, we are focusing--continuing to focus investment in JobStack with all of the development really centered around improving the usability and experience for our customers, our associates, and our internal staff.

So I'll give you a couple of examples. On the client side, our clients are now able to approve time directly in the app, which has saved them time and allows our associates to be paid more quickly once their assignment ends. On the associate side, we've been improving upon the job searching capabilities, including kind of filtering for location proximity, which was a desire by our associates. And for our internal staff, they now have improved visibility through the platform into orders and available associates that can be matched to jobs, increasing their efficiency level. So we continue to make those improvements, again, really focused on improving upon the usability.

Mark Marcon

Okay. Great. And then on the gross margins, you mentioned that the workers' comp. We--basically, the accruals weren't quite as favorable. Anything to point out there in terms of anything unusual?

Derrek Gafford

No, I don't think so, Mark. You know, when--as you know, that's a big cost for us. It's a big item on our balance sheet, and it's a really long-tail liability. And you know, just like you would have with any other insurance company, there's adjustments that can kind of go back and forth, and it could be a little lumpy at times. And so -- that's really it. There were just--there were less favorable adjustments to prior year reserves this quarter than what we saw the same quarter last year.

However, when you take a look at the expense, there's a lot of consistency in it. I mean, workers' comp as a percentage of revenue came in about 1.7% this quarter. It was 1.7% last quarter. It was 1.7% in Q2 of last year. Just in Q3 of last year, it was lower than that because there were--there was a nice lumpy benefit, larger benefit hitting the work comp line.

Mark Marcon

Okay. Great. And then on the balance sheet and cash flows, when we take a look at the accounts receivables, how are DSOs trending? Because it looked like receivables were a use of funds of cash. We didn't get the normal harvest that we typically get on revenue declines. What's occurring there?

Derrek Gafford

Well, when it comes to accounts receivable, at least for the year, you may be doing your own math on the quarter for the year, you know, it's $35 million to the positive.

Mark Marcon

Right. But I was talking about for the quarter sequentially.

Derrek Gafford

Yeah. Well, for the year-over-year, if we just kind of get to your question, DSO is up about one day, year-over-year. So we're not really seeing a big slide on the accounts receivable side. We just saw, you know, if you take a look from Q2 to Q3, our revenue dollars were about the same this year. And so we didn't--we didn’t have anything where we went from Q2 to Q3 seeing any kind of decline. They were just stable. So we had one day of DSO increase year-over-year. Sequentially, it was up a bit more than that, but Q2 of this year was unseasonably low as well.

Mark Marcon

Okay. But I mean, we should end up having some harvesting here in the--in the fourth quarter. I mean, free cash flow should--there's just a timing difference and free cash flow should rebound pretty nicely in the fourth quarter, no?

Derrek Gafford

That’s right, that’s exactly right.

Mark Marcon

Okay. Great. Look forward to talking to you post call. Thanks.

Operator

Thank you. There are no further questions at this time. I'd like to turn the floor back over to Taryn for closing comments.

Taryn Owen

Thank you, operator, and thank you, everyone, for joining us today. I look forward to meeting many of you at investor events over the coming year and keeping you updated on our progress. I also want to thank the entire TrueBlue team for their tremendous efforts and continued focus on fulfilling our mission to connect people and work. If you have any questions, please don’t hesitate to reach out. Have a great evening.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.