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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the TrueBlue second-quarter earnings results. On the call today will be TrueBlue CEO, Steve Cooper and CFO, Derrek Gafford. My name is Tavon and I will be your operator for today. At this time all participants are in listen-only mode. Later, we will conduct a question-and-answer session.

(Operator Instructions)

I would now like to turn the conference over to Derrek Gafford, CFO. Please proceed.

Derrek Gafford - *TrueBlue, Inc. - CFO*

Thank you and good afternoon, everyone. Here with me is CEO, Steve Cooper. I'll address the Safe Harbor language and then hand the call over to Steve.

This call includes forward-looking statements, which are subject to known and unknown risks and uncertainties. These statements are based on management's current expectations or beliefs. Actual results might differ materially from those projected in the forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements can be found in the Company's annual report 10-K filing and other Securities and Exchange Commission filings. Any forward-looking statements in today's call speak only as of the date of which they are made and we assume no obligation to update or revise any forward-looking statements.

The discussion today also contains non-GAAP terms including, but not limited to, adjusted earnings per share and adjusted EBITDA.

Adjusted EBITDA excludes non-recurring integration and acquisition costs. Adjusted earnings per share excludes non-recurring acquisition and integration costs, amortization of intangible assets and adjusts income tax expense to a 40% marginal rate. These are measurements used by management in assessing performance and in our opinion provide value to investors. We have provided reconciliations of the non-GAAP measures mentioned here today to GAAP measures on the Investor Relations section of our website at trueblue.com. I'll turn the discussion over to Steve.

Steve Cooper - *TrueBlue, Inc. - CEO*

Thank you, Derrek. Good afternoon, everyone. Today we reported our second-quarter 2015 revenue grew 38% to $628 million, which produced $37 million of adjusted EBITDA, an increase of 46% compared to a year earlier. While revenue came in at the low end of our expectations, adjusted EBITDA exceeded the high end of our expectations. The revenue shortfall was primarily related to one customer during the quarter and the shortfall has now dissipated and this is not expected to impact our trends in Q3.

Our Q2 gross margins were 30 basis points stronger than expected and costs ran slightly lower. Therefore, even with slightly lower revenue than expected, we produced $3 million more of adjusted EBITDA than expected and expanded our adjusted EBITDA margins by 30 basis points to almost 6% here in the second quarter. We expect to see continued expansion in our adjusted EBITDA margins as we continue to grow organic revenue and contain costs in future quarters.

During the quarter, we experienced consistent demand for both our legacy staffing and our newly acquired brands. Our legacy staffing brands grew 3% excluding the headwinds from the green energy business. We do not expect additional headwinds from green energy this year, as we have now passed the anniversary of the revenue drop that occurred last year. The addition of Staff Management and PeopleScout has grown our client list by providing customers with workforce management and recruiting process outsourcing solutions.

With the demand for our legacy staffing services increasing, along with the opportunity to sell into these new service lines, we are expecting strong revenue growth. Strategies we have implemented over the past year in our legacy staffing business produced over 20% growth in income for those operations even on fairly even revenue volumes. These strategies are driven by strong pricing policies and processes along with strong controls over operating costs.

The operating leverage we are gaining in the business comes from great focus from each employee out in our operations. TrueBlue is well positioned for continued growth in our staffing businesses, given our capabilities to serve small local companies in over 400 industry classifications and serve large national companies in focused industries such as construction, logistics, manufacturing, hospitality and many more. We see ourselves positioned in the right growing industries with the right service capabilities to continue our momentum in this expanding economic environment.

Businesses are searching for and finding the right mix of contingent and permanent workers to drive their businesses forward. In this regard, we can now offer more to our customers than ever before and serve new customers because of the investments we've made this past year. It remains a great environment to be the leader in delivering world class talent solutions that improve the performance of our customers.

The acquisition of the RPO and the OWM businesses in 2014 included the industry leading brands of Staff Management, PeopleScout and HRX. We are excited about the future growth opportunities we have in the RPO business. The RPO business is a fast growing segment in the global human capital space. PeopleScout is positioned well in this space with award-winning service delivery. We are seeing an increasing number of deals on a global basis come to market for permanent hire recruiting.

With our leading service provider of PeopleScout we are positioning TrueBlue to be able to respond to these global RPO opportunities. We are currently building strategies to position ourselves as the global leader in RPO by ensuring our RPO delivery model can deliver the same award-winning service we've been recognized for here in North America in both Europe and in Asia.

In our workforce management services line of staff management, we are serving some of the largest and fastest growing companies in North America. We are proud of the quality service they are delivering and we are excited about how they will help shape TrueBlue as we continue to grow and develop our service capabilities in contingent labor on a global basis. For our legacy business, we have continued to make progress in building a more efficient business model here in North America through the use of technology and combining certain leadership and sales teams across our staffing business lines.

This allowed us to close approximately 150 branches over the past two years while maintaining strong operations and customer support, proven by sustaining the revenue base in those combined markets. Cost savings related to those closings continue to show up in operating leverage here in the first half of 2015, as we continue to produce substantially all the revenue with a lower base of costs. We are not looking to see a significant number of further closings or consolidations here in 2015, as we are focusing on a tightening labor market and the need to ensure we have adequate resources to deliver and fill our demand that is rising.

We remain confident our legacy staffing business is oriented in the right verticals and positioned well for growth. The demand for general labor and skilled trades is strong. Construction growth is continuing to show slight improvement as new housing starts is beginning to have a positive impact on our own growth, but still not yet to the degree we believe it could. We are pleased with the growth in profits from our legacy staffing group, but expect stronger growth in revenue as the year proceeds.

We remain enthused with the organic growth opportunities in our business. We are in the right service lines that are showing growth and demand. With our focus on a broader spectrum of capabilities for our customers, we have the opportunity to improve our growth rates from here and continue the delivery of the right workforce at the right time to the marketplace.

From general labor to skilled trades to workforce management and recruiting full time positions, we find ourselves well positioned in sectors that are growing. Let me turn the call over to Derrek for further analysis and commentary before we open up for your questions. Derrek?

Derrek Gafford - *TrueBlue, Inc. - CFO*

Thanks, Steve. The end of Q2 2015 marked the anniversary of the Seaton acquisition, the largest of our 18 acquisitions and one of the most significant strategic actions in our history. Staff Management, an industry leader in the on-premise industrial staffing market added new capabilities enhancing our ability to better serve the industrial market. The addition of PeopleScout added a new complementary service line in the high-growth recruitment process outsourcing market. The transaction has met or exceeded all expectations. Over the last 12 months, Seaton added $738 million of revenue and $37 million of adjusted EBITDA, as expected. Integration was also completed this quarter as planned.

Here are a few highlights I'd like to share on the value brought by the Seaton deal. Excluding amortization, it added $0.50 to earnings per share or an increase of 40%. Also excluding amortization, increased return on equity by 25%, provided $10 million of revenue synergies and $2 million of cost synergies, both of which are not included in the Seaton revenue or adjusted EBITDA numbers mentioned just a moment ago. Of the $190 million of debt used to help finance the transaction, $115 million has been retired. I'll provide more perspective on our outlook for future acquisitions at the end of my commentary today.

Over the past year, we've provided standalone reporting for the legacy TrueBlue and Seaton businesses to provide transparency regarding the performance of both businesses and we will be discussing our results today using this approach. Going forward, we will be reporting results consistent with the two segments used in our SEC filings. We've also provided segment performance history on the Investor Relations page of our website for your convenience.

The staffing services segment includes the legacy TrueBlue staffing businesses as well as the Seaton on-premise staffing business. The managed services segment includes the Seaton RPO and MSP operations. Staffing services represents approximately 90% of annual consolidated gross profit dollars with managed services at 10%. While managed services comprises a small minority of the gross profit dollars, we expect the gross profit mix to increase from a higher pace of organic and acquisition growth. Within the staffing services segment, legacy TrueBlue makes up 85% of annual segment gross profit dollars with Seaton on-premise at 15%. For managed services, the RPO business is 80% of annual segment gross profit dollars with MSP at 20%.

Now let's take a look at this quarter's results starting with revenue. Total revenue grew by 38%, driven primarily by the Seaton acquisition. Total revenue of $628 million was $7 million below our mid point expectation due to a drop in production with one customer. We do not expect this event to impact future revenue trends. The Seaton businesses continue to perform very well and carry strong revenue pipelines.

Organic growth for the legacy TrueBlue business was 1% or 3% excluding the headwind in the green energy business. We do not expect additional headwinds from the green energy operations this year as we have now passed the anniversary of the revenue drop that occurred last year. Gross margin was 24.2%, down 220 basis points year over year but was up after adjusting for the Seaton acquisition. The Seaton deal, which carried a lower gross margin than the legacy TrueBlue business, dropped the blended average by 250 basis points. Legacy TrueBlue saw 30 basis points of gross margin improvement.

New let's discuss selling, general and administrative expense. SG&A of $118 million was up $22 million year over year due to the acquired Seaton operations, but was flat for legacy TrueBlue. As a percentage of revenue, total SG&A was down 250 basis points or 40 basis points on a legacy TrueBlue basis. Adjusted EPS was $0.45, an increase of roughly 40% year over year. EPS on a GAAP basis was $0.42, an increase of less than 10%. A lower income tax rate in Q2 last year and the intangible asset amortization added from the Seaton acquisition comprised the growth differential between the two EPS measures. The effective income tax rate for Q2 this year of 27% was lower than our ongoing expectation of 40% due to a higher than expected yield from tax credits associated with prior year programs.

Turning to the balance sheet, we ended Q2 with $100 million of total debt and a debt to trailing adjusted EBITDA ratio of 0.7. Total liquidity, defined as cash plus borrowing availability on the revolving credit facility, was $200 million. Year-to-date cash flow from operations of $107 million was roughly $80 million higher year over year. About $45 million of the increase is from a shift in the seasonal peak of accounts receivable from the third quarter to the fourth quarter as a result of the Seaton acquisition. This in turn shifted the seasonal deleveraging of accounts receivable to the first quarter of 2015.

Looking ahead to Q3 2015, we expect total revenue growth of 5%, all of which is organic and is a step up from organic growth of 1% in Q2 2015. On a segment basis, staffing services revenue is expected to be up about 5% and managed services flat. Excluding the impact of currency and the exit of two unprofitable accounts, pro forma managed services growth is expected to be about 10%.

Quarterly growth trends in managed services tends to be choppy due to the relatively small customer base in comparison with staffing services. However, we expect annualized organic revenue trends to be in the neighborhood of 15%. Consolidated gross margin should be 24.5% to 24.7% for Q3 2015 or about 60 basis points lower than a year ago. About 20 basis points of the drop is an increase in the mix of on-premise staffing, which carries a lower gross margin than the blended Company average. The remaining 40 basis points is related to favorable impacts to prior year worker's compensation reserves in Q3 and Q4 last year, which we do not expect to recur at the same level this year.

Our adjusted EPS expectation for Q3 2015 is $0.52 to $0.58. The mid point of this range equates to an adjusted EBITDA margin similar to Q3 a year ago. Excluding the workers compensation headwind I mentioned earlier, we expect adjusted EBITDA expansion to be comparable to our Q2 2015 results. CapEx for Q3 should be about $5 million to $6 million. We will continue using a combination of organic and acquisition growth to deliver value for shareholders. A strong operating leverage in our business can deliver attractive adjusted EBITDA margin expansion, as witnessed by the 80 basis points achieved year to date.

Strategic acquisitions will play a big role in our growth strategy and we see an ample pipeline of opportunities. Let me provide an overview of our acquisition strategy in order of both our priority and our perspective of EBITDA multiple valuations. International RPO is our top priority. We believe we have the right technology and process capabilities to serve customers globally. International acquisitions enhance our ability to compete outside our primary footprints in the United States and Australia by providing local presence and referencable clients. RPO deals may also include revenue synergies with our international RPO customers as well as the deals targets customers having operations within our footprint.

Second on the list are industrial staffing businesses specializing in skilled trades positions. We like the strategic positioning here, as we believe demand for this service will continue to outpace supply of contingent employees well into the future, which also bodes well for increasing bill and pay rate spreads. We're also excited about the opportunity to further leverage the centralized recruiting best practices within our RPO and on-premise staffing businesses to enhance our competitive differentiation in this space.

Third are light industrial acquisitions. These involve tuck-in deals to our current business, increasing our market share and scale while providing sizeable synergy opportunities. That ends our prepared remarks for today. We can now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Henry Chien representing BMO.

Henry Chien - *BMO - Analyst*

Hi, good afternoon. I'm calling in for Jeff Silber. Could you talk a little bit about the one customer shortfall and maybe a little bit on some of the cost synergies that helped achieve some of the margin expansion in the quarter? Thanks.

Derrek Gafford - *TrueBlue, Inc. - CFO*

Sure. Good afternoon, Henry. Yes, this has to do with one customer and it's one that's involved in our legacy TrueBlue operations that's a good customer of ours. Most of our forecasting when it comes to the top 10% of our customers, we rely heavily on their forecast for the quarter and this customer just had a shift in their production.

Some they were moving to some other facilities and some pushed out during the year and that's really the main thing. Regarding the cost synergies that I mentioned, I mentioned $2 million of cost synergies. Those are annualized numbers. We haven't really shared those, but those did not play a big role in our results for the quarter that I discussed.

Henry Chien - *BMO - Analyst*

Got it, okay. And for third quarter, is there any change in your business mix that's implied in the guidance? I'm trying to get a sense of what end markets you're seeing more robust demand from.

Derrek Gafford - *TrueBlue, Inc. - CFO*

You cut out just a little bit there Henry, but I think the discussion was for any color that's worth mentioning in our guidance as far as end markets?

Henry Chien - *BMO - Analyst*

Yes, exactly.

Derrek Gafford - *TrueBlue, Inc. - CFO*

Well let me focus more on the legacy TrueBlue side here. From a vertical perspective I'll give a little bit of color here. There's nothing dramatic. Steve mentioned that we've seen a bit of an uptick in construction. It's still early on. We ran maybe a couple points negative actually in this category over the last couple of quarters and we saw a little bit of an uptick getting us into slightly positive territory in Q2. Manufacturing has been a bit soft. It's still been growing for us, but it's been close to flat and low single digits.

We're assuming basically the same type of growth rates in our industries going into Q3 that we've experienced this quarter. The organic growth rate for the staffing services segment is an organic growth rate of 5%. We closed this quarter and the legacy TrueBlue side lower than that, so it's a bit of a step up. But it's not assuming anything unique occurred from an industry perspective other than what we've been experiencing.

Henry Chien - *BMO - Analyst*

Got it. Okay, thanks for the color.

Operator

Your next question comes from the line of Paul Ginocchio representing Deutsche Bank.

Paul Ginocchio - *Deutsche Bank - Analyst*

Thanks. First on the two clients in the RPO business that are coming out in the third quarter, why now and can you give us the rough run rate of those two clients? It's just infecting the managed services piece, right, which is smaller? Then a follow-up on what's baked into guidance for construction in the third quarter relative to the second quarter growth rate. I think you said marginally positive. And then I want to go back to that $7 million of revs you lost in the second quarter. How much was that client down Q on Q or was that roughly? Thanks.

Derrek Gafford - *TrueBlue, Inc. - CFO*

Let's see. Maybe we'll start in reverse order here. So for the customer that was down, we were still in basically about flat with that customer, but it was down from what we had originally anticipated. In regard to the managed services, a couple customers that we exited, the question was why now and how much is that. The why now is those are both two customers that we've done business with on the RPO side.

We've had them for a while. When that business was bid out they were bid competitively low and we thought we would develop some efficiencies there. One of those came up for bid and we chose not to drop our prices or what our requirements were from a billing perspective. We actually chose to increase them and they made a choice to go somewhere else. And another that dropped out of our run rate was a similar decision that we made.

In regards to construction, I think that was where we started at the top of this, what our assumptions are. We're assuming that construction is going to be a similar type of mix and growth rate, maybe 2%, 3% in Q3. So we're not anticipating anything significant turning in that area. We're hopeful and we are optimistic about that, but that's not in our guidance today.

Paul Ginocchio - *Deutsche Bank - Analyst*

Sorry, on the construction, you said it was up 1% or 2% in the second quarter?

Derrek Gafford - *TrueBlue, Inc. - CFO*

I believe it was up 2%.

Paul Ginocchio - *Deutsche Bank - Analyst*

Okay. I would have thought -- there's comments about worker shortages in construction. I would have thought wage growth is at least 2% to 3%. Are you not seeing that or you are not getting any volume growth?

Derrek Gafford - *TrueBlue, Inc. - CFO*

We're just talking about revenue overall or are we talking about construction?

Paul Ginocchio - *Deutsche Bank - Analyst*

Construction.

Derrek Gafford - *TrueBlue, Inc. - CFO*

Yes, what we've been seeing, Paul, is we've been seeing bill rate inflation probably about 3% overall. When we get into the skilled types of positions, we are seeing much more wage inflation there. The predominance of the construction mix that we have here is more on the general labor side and in that piece we aren't seeing above market bill rate or pay rate inflation.

Paul Ginocchio - *Deutsche Bank - Analyst*

So you aren't seeing any volume growth? It's just wage?

Derrek Gafford - *TrueBlue, Inc. - CFO*

Yes, on construction. That's right.

Paul Ginocchio - *Deutsche Bank - Analyst*

Finally, sorry, if I could get one more in and I'll hand it over. What does that roughly equate to revenues for the managed services, those two clients?

Derrek Gafford - *TrueBlue, Inc. - CFO*

Well, excluding that, it makes about 5% of our revenue, 5% revenue decline. So you can take the 5% and calculate it on your own.

Paul Ginocchio - *Deutsche Bank - Analyst*

And then the other 5% is FX?

Derrek Gafford - *TrueBlue, Inc. - CFO*

Yes, that's right. So part of our business there is the Australian market and that constant currency pro forma that I gave you is excluding currency drop in Australia.

Paul Ginocchio - *Deutsche Bank - Analyst*

Thank you.

Operator

Your next question comes from the line of Randy Reece representing Avondale Partners.

Randy Reece - *Avondale Partners - Analyst*

Afternoon. Did you say anything about the specific industry or brand that the customer weakness was concentrated in?

Derrek Gafford - *TrueBlue, Inc. - CFO*

No. It's on the legacy TrueBlue side.

Randy Reece - *Avondale Partners - Analyst*

Now, I've heard from public and private players quite a bit of talk about softness in the industrial vertical and surely some things also connected to oil and gas. Do you have any specific comments about vertical market growth performance or expectations 2Q, 3Q?

Derrek Gafford - *TrueBlue, Inc. - CFO*

Well, I'll give a little bit more directional comment here, Randy. When it comes to this one customer, I chose to specifically talk about that one so that everyone knows that the lighter amount of revenue, that it's not a widespread part of our revenue base. And it was an isolated item and I want to be clear here too, it's not something that we see impacting our future growth trends. And I think our guidance here today shows that we're still looking for some pretty healthy organic revenue growth, certainly a step up from what we have been running historically.

And when it comes to industry verticals, probably the best two things I can provide some color on is manufacturing and construction. However, before I do that, I just want to make it really clear that these are really small degrees of color that I'm providing. There's not something big brewing in either one. They are actually quite small headlines and that is we did see a little bit of movement up in growth construction. We got into positive territory, a couple points versus being down a couple points in Q1 and Q2.

Still, that's pretty small in our business. These things do move around quite a bit. Manufacturing has continued to be relatively soft for us, particularly on the legacy TrueBlue side. It's doing quite well in our on-premise division by the way, but manufacturing is still in positive territory, so I don't think there's much more commentary than that. Outside of that our growth trends across our industries are not too far off from the blended average that we talked about today.

Steve Cooper - *TrueBlue, Inc. - CEO*

And Randy, one thing that we would want everybody to really understand here too is although the revenue came in at the low end, our gross margins were above expectation and the gross profit dollars hit expectation. So being able to manage through that and have smart employees out there making great decisions, sometimes losing revenue is not always that bad.

So it all plays in what we're thinking about and how we're looking at this. The most important thing is we're hitting our cash flow targets and we're moving forward and as Derrek has mentioned here a few times, we feel better about the back half of the year and we have trends that support that.

Randy Reece - *Avondale Partners - Analyst*

Yes, that was one thing I was trying to get at in all of this is trying to get an understanding of why the gross margins are coming in a little bit better than expected, if it has something to do with the mix between brands or some other operational issues that you are executing on.

Steve Cooper - *TrueBlue, Inc. - CEO*

Yes, I think it's as I mentioned in my prepared remarks. It's about policy and procedure around pricing and sometimes that means walking away from accounts you aren't making money on and we have the discipline to do that. It's not big numbers, but it's enough that it's creating curiosity about our top line growth and we feel really confident about a 5% growth, organic growth for our legacy business stepping into the third quarter. And that should be exciting to you at this time to go okay, we're stepping up after three or four quarters of some substantial drag on that. So it's looking good.

Randy Reece - *Avondale Partners - Analyst*

Thank you very much.

Operator

Your next question comes from the line of Mark Marcon representing Baird.

Mark Marcon - *Robert W. Baird & Co. - Analyst*

Good afternoon. With regards to the staffing services guidance, what's the implied legacy TrueBlue growth rate relative to some of the workforce solutions that are in that portion of the revenue bucket at this point?

Derrek Gafford - *TrueBlue, Inc. - CFO*

Hi, good afternoon, Mark. From a legacy TrueBlue perspective, it's in probably between call it the 4% range.

Mark Marcon - *Robert W. Baird & Co. - Analyst*

And so when we take a look at the newer part of the business, does that imply like 6% growth? Is that 6%, 7%?

Derrek Gafford - *TrueBlue, Inc. - CFO*

The on-premise business, yes. It's running more between let's call it upper single digits.

Steve Cooper - *TrueBlue, Inc. - CEO*

The reason that math doesn't work is the gross margins are lower in that business, Mark. If you look at the gross profit dollars, it might not be there but the nice part is the legacy business is picking up from here and the blended mix is what our guidance was for that staffing group.

Mark Marcon - *Robert W. Baird & Co. - Analyst*

Okay and the on-premise business is that maintaining its growth rate or is that slowing a little bit?

Derrek Gafford - *TrueBlue, Inc. - CFO*

Well it's a pretty healthy growth rate. They've had higher growth rates than this in prior years and I think this is coming in right where we talked about with the Seaton acquisition. The on-premise growth rate, this is in the industrial staffing market that's growing arguably somewhere around the 5% to 6% range. It's growing above that and we think they could continue to grab some market share in that space. And I'd say that going into the fourth quarter, these trends going forward, we probably have something consistent with that but we're pleased with that growth rate.

Mark Marcon - *Robert W. Baird & Co. - Analyst*

Okay and then on the legacy, if that's growing 4%, which divisions within that are seeing the strongest growth? I would imagine Centerline is doing really well, CLP, how should we think about that?

Derrek Gafford - *TrueBlue, Inc. - CFO*

Yes, our drivers business is doing quite well, demand for that is strong. We've got strong growth there as well as margin expansion in that. Interestingly, when we're talking about our staffing business, at least some of the more retail oriented business, that's actually doing quite well from a growth perspective. Skilled trades continues to do really well for us. It's running probably just a little bit above where the labor ready business is.

That helps provide a little bit of color on it, Mark. And manufacturing on the Spartan side is up, at least for larger customers. We've seen some of that on the labor ready side has been softer, particularly when we're dealing with customers that are manufacturing oriented and a big part of their business is exporting. Those that are doing exporting outside of the US, that's where we've seen the biggest area of softness in manufacturing.

Mark Marcon - *Robert W. Baird & Co. - Analyst*

Sure, that's understandable. And with regards to the labor ready business, just operationally, you talked about a refocus with regards to the operations there at the branch level. How is that progressing?

Steve Cooper - *TrueBlue, Inc. - CEO*

Yes, it's coming along really well. We had a change process going through where we are really trying to manage those specialized staffing groups together under common leadership. We did have a few hiccups there because that transitioned and I think that we're understanding that deeper and leadership is coming together, teams are coming together in the marketplace better.

We still believe that we have a lot of room for upside in consolidating those operations further between labor ready CLP and Spartan, mainly because CLP is only in about 30% of our markets and Spartan is only in about 30% of our markets. So now that we have common leadership somewhat leveled and that's where, if you're going to talk about focus or noise, it was in those ranks. Now we believe we have the opportunity to push that initiative further and bring those operations closer together.

And so we can expand these great services into the other 70% of our markets where they don't exist. So I think there's good upside from here that we've got to prove out still by combining the systems, combining the process and getting in front of the clients and moving those capabilities throughout North America and not just in the pockets where they exist but it was the right project to start. It was a little messy to go through a change process, but we're ready to get back on that horse and push it further down the road.

Mark Marcon - *Robert W. Baird & Co. - Analyst*

Great. With regards to the potential acquisitions, how are you thinking about the prices that you're seeing out there, particularly as it relates to international RPO? How should we think about that?

Steve Cooper - *TrueBlue, Inc. - CEO*

Well, we're pretty new at this, so we're pretty cautious and I'm surely not the expert at international RPO valuations right now so I think we have a lot to learn. We're pretty cautious buyers of both timing and pricing and we're looking for opportunities that we can manage our risks as we get into these deals. So all I can do is give you the assurance of maintaining our trajectory that we've been on and not take risks beyond our own capabilities.

That's the most important thing here that we don't get crazy and think we're buying a dream that somebody else built, but that's not going to happen. For one, in Asia there's no real organized RPOs that are for sale and that we can step into easily. We're going to need to still build this ourselves even with some baseline acquisitions, because they will be small. We're going to have to build this and put it together much like we put the staffing business together here in North America.

Mark Marcon - *Robert W. Baird & Co. - Analyst*

Great. Then on the skilled areas, skilled trades, what sort of multiples would you see there? You obviously know that market extremely well.

Derrek Gafford - *TrueBlue, Inc. - CFO*

Well, I think the best way for us to think about this is directionally. So the multiples that we're willing to pay when it comes to the RPO side will be towards the top of our range, closer to something which you saw with Seaton. When we do our return on investment modeling on this and our DCF analysis, really what this comes down to is businesses that are growing faster and have higher margins deserve more and you saw that with the Seaton acquisition.

When we're talking about something in skilled trades, probably less than we would be willing to pay for RPO. But that's a strong margin business with, as I said in my prepared comments, some nice tail winds behind it that we see happening into at least the next five years. So that would be somewhere in the mid range of our valuations that we paid in the past and certainly not as high as Seaton.

And then light industrial being closer to the end of that pay scale, unless they were bringing something very new, very compelling, a different way to serve the market where we could leverage some of that value in addition to -- I'm not just referring to cost synergies, but enhancing our service delivery capabilities across the TrueBlue network.

Mark Marcon - *Robert W. Baird & Co. - Analyst*

Got it. And then just on the managed services revenue, when would you expect that to pick back up to the 15% type growth?

Derrek Gafford - *TrueBlue, Inc. - CFO*

I think we'll start seeing that over the next couple quarters. Just to keep this in perspective and I'm really glad you asked this question, the sales cycle for RPO as many people know, it's quite a bit longer than the staffing business. We're talking to you generally about an 18 month sales cycle. So while we're seeing a little bit of softer revenue growth here on the RPO side, it had a lot to do with Seaton's growth in 2014. And in 2014 that business grew well over 20% organically and did an acquisition of HRX.

All told, that was a revenue growth of 60% to 70%, which is a lot to digest. When that digestion is going on of that type of growth, there's not much capacity to be out working the sales channel. And so a big part of the growth that happens in a particular year is from deals, some of which were already sold and booked the year before and some of which that were in the pipeline that start to mature.

I've spent a lot of time with this part of our business as well as our executive team and the pipeline here on the RPO business is quite strong. So we're not concerned at all about the annual 15% growth rates, of getting back to something like that within the next couple of quarters. We're just as optimistic about this if not more as the day that we did the deal.

Mark Marcon - *Robert W. Baird & Co. - Analyst*

Great, thank you.

Operator

(Operator Instructions)

Your next question comes from the line of Sara Gubins representing Bank of America Merrill Lynch.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Hi, thanks. Good afternoon. Could you talk about the leverage that you'd be comfortable with as you consider more M&A?

Derrek Gafford - *TrueBlue, Inc. - CFO*

You're referring to the debt leverage?

Sara Gubins - *BofA Merrill Lynch - Analyst*

Yes.

Derrek Gafford - *TrueBlue, Inc. - CFO*

Yes, so the Seaton acquisition was a good step for us on getting comfortable with taking on some leverage and that took us up to a debt to EBITDA leverage ratio of about a 1.5 when we did the deal. We're at a 0.7 now. We worked that down quickly. I think we might be willing to go up to a 3 times, 3X to do a deal if we could see that coming down really quickly over the next year. If we could drop that down, could see a really clear path to dropping that down to a 2 times within a year, we would be comfortable with something like that and so will our banks.

But I would say that's the top of the range and it's conditional upon us being able to see us bring it down quickly within a year and that we're not buying something towards the end of an economic expansion period where there's some risk with that. As long as we feel comfortable about there's lots of runway from an economic perspective and that we could bring it down pretty quickly, we could be comfortable with that.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Okay, great. And the worker's comp benefit that you mentioned that you don't expect to repeat in the third quarter, does that difficult comparison continue into the fourth and into next year or was it a one-time thing in the third quarter of last year?

Derrek Gafford - *TrueBlue, Inc. - CFO*

Well it's a bit of a third quarter and a fourth quarter item, but it doesn't continue into next year and I'm glad you asked the question just so we can clarify this. Our work comp rate that we've been running in Q1 and Q2 has been very steady and we expect to continue at a similar rate throughout this year and don't have any signs that that would be higher than that going into next year. This is really about the prior year and Q3 and Q4 were more favorable than what our current trends are running and it spiked a bit above what we had been experiencing through the first half of 2014 as well.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Okay. So it looks like you're making nice progress on margin expansion in legacy TrueBlue. How should we think longer-term about where those margins could go in the now staffing solutions segment?

Steve Cooper - *TrueBlue, Inc. - CEO*

On the EBITDA margins we are getting some nice leverage there, but prior to the Seaton acquisition we had models and were making great progress towards getting that back to above 7% and so another expansion of another 120 basis points or plus from here.

The mix of the Seaton business has slowed down a bit, but surely we see further expansion, whether it's another 50 to 60 basis points from here or give us another year to really get comfortable with what we can do with growing revenue and holding costs, we might change that view. But we know that it's going to be above a 6% if we keep executing on it the way we are.

Derrek Gafford - *TrueBlue, Inc. - CFO*

We're on a good trajectory there. Both of the staffing businesses, the legacy TrueBlue, the on-premise staffing are doing quite well here. And now that we've added the RPO business in, which in and of itself, well let me refer to managed services because that's how we're talking about it. That runs above a 15% EBITDA margin so that also helps with the accretion on the EBITDA margin expansion.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Last question, any discussion with clients around minimum wage hikes or the President's proposal around overtime requirements?

Steve Cooper - *TrueBlue, Inc. - CEO*

Well we've started those. We're getting questions about how real it might be and I think we're learning day by day that it looks fairly real and that states are passing this and cities are passing minimum wage increases at this point in time. So it's on our radar. We have to fall back to the fact that two-thirds plus of our business is not under contract. We reprice it every day as we're selling it and we've had that in our legacy and we can continue that direction.

And with strong policy and controls and communication, we've seemed to be able to work through some pretty heavy minimum wage increases, unemployment cost increases, work comp increases throughout the years and maintain these margins in our legacy staffing business. Over where we are contracted in larger accounts and in the on-premise, that's a little tougher. But most of those contracts say if minimum wage goes up we can reprice and there's certain other components that we can reprice. So contractually we are not locked down.

This is going to be more of what is this doing to the economy and can companies afford it and is there going to be constraint? Those are questions that are bigger than us, but that's kind of where it's coming down to. But what we can internally operate to, we feel good about and we feel good about the process and the communication we have. This is a bigger economic issue of whether there will be lasting or longer implications on demand or the general economy of that. Directionally we're feeling okay about it, but it is moving at a pace that's pretty fast right now, Sara.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Great, thanks very much.

Operator

Your next question comes from the line of Jeff Silber representing BMO Capital Markets. Please proceed.

Jeff Silber - *BMO Capital Markets - Analyst*

Thanks so much. I don't know if you have this information handy, but is it possible to give us pro forma growth second quarter 2015 versus second quarter 2014 under your new segment, under staffing services and managed services?

Derrek Gafford - *TrueBlue, Inc. - CFO*

No, we don't have that because we didn't own Seaton during the second quarter of last year. So we can't give that to you pro forma. However, out on our website for the period of ownership which we have owned Seaton, so starting a full quarter in Q3 2014, all that information we put it out there in one file for you on our investor website and you can go to that page and get all that information if you'd like.

Jeff Silber - *BMO Capital Markets - Analyst*

Okay let me ask the question another way then. In your presentation, you say you expect pro forma managed services growth at the mid point of 10% in the third quarter. Is that slower or faster than what you think pro forma growth would have been in the second quarter?

Derrek Gafford - *TrueBlue, Inc. - CFO*

Yes. That's pretty comparable. We've been roughly flat in Q2 from a managed services perspective, so that's pretty consistent with that. On a pro forma basis it would be something close to that because we still do have some of that customer impact that I mentioned. Not all of that is the two customers that we're exing the relationships with. That didn't just start in Q3 and we've been battling some of the currency headwinds, really started picking up Q2 of last year.

Jeff Silber - *BMO Capital Markets - Analyst*

Okay and you also mentioned your desire to expand in the international RPO market. Are you providing services there now? If so, which countries and if not, which countries are you targeting?

Steve Cooper - *TrueBlue, Inc. - CEO*

We do have a couple clients we're servicing besides Australia. So we have a strong base in Australia, we have our PeopleScout division in North America and then PeopleScout has a little bit of service around the world in several countries, but it's mainly with one account. We have a team in England, I think in London and we have a team in Asia that service that one account, call it six to eight employees in each of those countries right now servicing that one account in over 20 different countries. But it might be one body here and one body there of that one account.

So we have a little bit of experience in that category. Most of our international experience, though, comes just from Australia, and so what we're looking to do is add to those teams that service this one account. Can we pick up some additional headcount, some additional recruiters and client experience. One thing that's very important in the RPO space is referenceability and although we're referencable in North America, our teams in Europe and Asia aren't that referencable because they are serving one account and the team size is small.

So as I've mentioned earlier, we are not looking for a huge acquisition. We're looking for opportunities to acquire smaller teams and grow that way so we can control the risk, we can understand it and build up some capacity. We really believe that once we build up a little capacity there we will then be invited to play in the RPO space in RFPs. And once we're responding and can play in the RFP, we have a high degree of belief we will start winning in international deals and that acquisitions won't be as important.

But we need to jump start it and we need to jump start it now because there's the demand and the number of RFPs is an increasing pace in these international deals. So again, they won't, they being the buyers, don't necessarily rely on our North American referenceability or even our Australia referenceability. So goal number one is build up enough size that we can have some referenceability and then we will start winning.

Jeff Silber - *BMO Capital Markets - Analyst*

Great and since this seems to be a top priority for you, I'm just curious it's a little bit beyond what the Company typically does. How are you sourcing those potential acquisitions?

Steve Cooper - *TrueBlue, Inc. - CEO*

Yes, so it is a top priority, not the top. The top is maintaining organic growth above 5% and growing that from here, trying to get that towards double digit. That's the big pay off for us is our current business and getting that up. A top priority though right behind that would be yes, let's get this RPO business and we're so interested in that because of the RFP flow that's there and so that answers that first part. Second was well how are you doing this.

Surely your team out of Tacoma is probably what you were saying is not working on this. Well we have relationships. We have plenty of people that want to help us grow that and they're on the street and they're out looking and building relationships just like we build up our acquisition strength here over the years by being introduced to companies and being introduced to what their end game might be and we're starting the same thing.

Most recently, you'll have seen during the quarter that we promoted Patrick Beharelle, who had previously been the CEO of the Seaton companies and really helped build the strength of the PeopleScout brand up here. So with his recent promotion to be the Chief Operating Officer of TrueBlue as a whole, he's not only extending his arm to insure that clients are getting access to all of our services here, but he has the capacity to go out and build those relationships with acquisition clients around the world.

So that's part of his duty is with brokers, bankers introducing him around, he's taking trips and building those relationships. We know this is going to take some time, especially on a risk-based method that we're not going to rush because we aren't going to get an imbalance of risk here. So priority one is you've got to identify the targets. We've got a team working on that, once they're identified make introductions, get Patrick over there and in front of these companies and move the needle. So that's where we are right now.

Jeff Silber - *BMO Capital Markets - Analyst*

Really appreciate the color, Steve. Thanks so much.

Operator

(Operator Instructions)

Your next question comes from the line of Randy Reece representing Avondale Partners.

Randy Reece - *Avondale Partners - Analyst*

Hi. I just wanted to try to clarify here, did your new managed services segment have around $100 million revenue in last 12 months? Is that in the ballpark because I haven't been able to find any specific numbers on actual revenue.

Derrek Gafford - *TrueBlue, Inc. - CFO*

Yes, that's exactly about right, Randy. $100 million is the number I would use.

Randy Reece - *Avondale Partners - Analyst*

And when you go plotting your international expansion, how are you going to manage incremental expenses? Are you going to have a period of time where you have to kind of take a bath in expenses up front or is there any way you're going to be able to do this incrementally?

Steve Cooper - *TrueBlue, Inc. - CEO*

Well, we surely haven't crossed that bridge yet. First goal is we buy a company that's profitable and we pay them a decent multiple and we don't have a cash flow loss beside the original investment that we feel comfortable of getting a return on. That would be first choice. Another way to build this is invest in people first, build up the teams, build up the recruiting teams ahead of the client.

That's not our first choice, but that's an option and we haven't decided to take it yet. That's probably the one that would cause some additional expense ahead of and if we do that we'll let you know and tell you how much it is. I guess there's a third option is buy a broken company and we can tell you how much drain that's having.

But again, we're sticking with option one right now, looking for companies that have good client base, making money, good contracts in place that we feel we can step into. Sure, we might be able to improve the operation, but we need good referenceability so we're going to work on this this year and see where we get and we'll share more with you if we choose a different course.

Derrek Gafford - *TrueBlue, Inc. - CFO*

That's exactly right, Randy, and if we decide to take a different course there we would let all of you know about that. So our first choice is right what Steve mentioned. Part of the cost in going international here is building up some of the compliance infrastructure, which is really important for this and so we don't want to do that ourselves. We want somebody who's already blazed that trail and that's our first option here.

And the second part about it is, growing internationally and doing that organically, it's in a very different league than doing this from a staffing perspective. The amount of compliance and the infrastructure it takes to do this to grow organically and do it for a staffing business internationally is in a way different league here than on the RPO side. So I wouldn't be concerned that there's any big splash coming on a big expense trajectory in our plans here that you don't know about.

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Randy Reece - *Avondale Partners - Analyst*

Very good. Thanks a lot.

Operator

Your next question comes from the line of Paul Ginnochio representing Deutsche Bank.

Paul Ginocchio - *Deutsche Bank - Analyst*

Thanks. Steve, one of your competitors reported a slowdown in their US business yesterday and the American Staffing Association index is indicating the market's down about 3% right now, which is much weaker than the little bit of growth we saw in the first quarter. I'm just wondering what you think of the US debt market, light industrial right now? Is it getting better or is it getting worse?

Steve Cooper - *TrueBlue, Inc. - CEO*

I think it's getting better. I think there's going to be deepening of the penetration rate of temps working out there. Clients are still looking for talent solutions that keep their businesses moving, give them some flexibility. It's changing though, as you've seen in our own business. If we hadn't changed who we are, we would be in big trouble right now.

And if we had stepped back and hoped and built a whole strategy around hope around construction rebounding to what construction was pre-recession, we wouldn't look the same. The same thing has happened in the manufacturing. We have to listen very closely about what the client wants and how they want to be served and then we need to build models around that rather than saying well this is who we are and how we deliver.

That kind of change is not easy, but we have really, really talented people listening right now to the marketplace changes that are taking place. We have a few other innovations coming that we're working on that we believe are right where the marketplace is going. So to continue the expansion and play in this penetration deepening, it takes innovation and it takes change.

Hopefully small evolutions so it's not dramatic at any one point in time, but we're sure glad that we've been in the change business for ten years and I think the same thing is going to happen now. But as far as clients interacting with us and engaging and talking about their options, the phone's not ringing any less.

Paul Ginocchio - *Deutsche Bank - Analyst*

Thank you for that. Do you think the US debt market revenues are accelerating right now? Are you seeing accelerating trend in demand or is it stable?

Steve Cooper - *TrueBlue, Inc. - CEO*

It's modest. I don't believe it's shrinking right now. I think that there's some volatility in it and all of us are trying to get our hands around even BLS numbers and what comes out of major analyst groups of the big numbers they are analyzing. It appears volatile and it looks like head fakes from time to time and I think that's just the changing conditions that clients are purchasing differently and have different demands right now.

We're really pleased with what's come together for us the last year and that is that we can do your permanent hiring, we can do your long term management of your workforce on site and we can also service your project needs on a short-term basis or even a long term basis. And we have cost models that are fairly efficient for each of those purchasing engines. So we've had a tough year on organic growth and it's not easy for me to sit here and go you know yes, I know organic growth will go forward.

But the trends we've seen and what's caused a drag on our organic growth, some of those things are behind us. The fact that we're serving a broader audience of size of company, geography of company and industry of company, we're in a better place than we've been. We will have to continue, though, to evolve because clients are asking different questions every meeting about what they want and what we can provide that's going to change. Now the challenge for everybody out there is finding people.

So we are being as innovative as we can on the sourcing side and that's where we're going to win going forward, is who has access to not only the highest amount of people, but the highest quality. That equation hasn't changed and we all know pricing comes into play. So we've got to run a low cost model so we can provide all three avenues of that triangle for clients and we've got to continue that. So we continue to innovate on how we source, where we find people, how we engage with them.

And the technology that we've worked on in the past becomes obsolete too quickly in this changing world and we're continuing to invest in new technologies that we can communicate better with the workforce and we believe that's going to keep us relevant. So it's a really good question and it's one that we all can't sit on our laurels too long on this one because the world is changing quickly. For us to be that talent solution in the changing world of work is something we work on every day and hold credence on that it really is a changing world and we have to be relevant every day.

Paul Ginocchio - *Deutsche Bank - Analyst*

Thank you.

Operator

That concludes the Q&A session. I will now turn the call over to Steve Cooper.

Steve Cooper - *TrueBlue, Inc. - CEO*

Thank you. We do appreciate your questions today and the changes that we've had here are not that easy to follow, but we're very confident with the new segment reporting we've introduced today. It's going to be easier and we'll build up trends in this for you and provide you the details that you've been asking for here as we go forward. So thank you and have a great day.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.
