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TrueBlue, Inc. (TBI)

Q1 2021 Earnings Call

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A. Patrick Beharelle

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Mark Steven Marcon

Analyst, Robert W. Baird & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Hello. My name is Philip and I'll be your conference operator today. At this time, I would like to welcome everyone to the First Quarter 2021 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you. You may begin your conference.

Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

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

Before we begin, I want to remind everyone that today's call and slide presentation contain forward-looking statements, all of which are subject to risks and uncertainties and we assume no obligation to update or revise any forward-looking statements. These risks and uncertainties, some of which are described in today's press release and in our SEC filings, could cause actual results to differ materially from those in our forward-looking statements.

We use non-GAAP measures when presenting our financial results. We encourage you to review the non-GAAP reconciliations in today's earnings release or at Trueblue.com under the Investor Relations section for a complete understanding of these terms and their purpose. Any comparisons made today are based on a comparison to the

same period in the prior year unless otherwise stated. Lastly, we will be providing a copy of our prepared remarks on our website at the conclusion of today's call and a full transcript and audio replay will also be available soon after the call.

With that, I'll turn the call over to Patrick.

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Thank you, Derrek, and welcome, everyone, to today's call. I am pleased to report we had a strong start to the year. We delivered net income of \$7 million in the first quarter versus a loss of \$150 million in the first quarter of the prior year. As a reminder, the first quarter last year included a non-cash asset impairment charge of \$152 million net of tax. Growth, excluding the impairment charge, was led by a series of new client wins, improving industry performance including those hit the hardest last year, and disciplined cost management. I'm pleased that on an adjusted basis, we experienced growth of \$9 million in both adjusted net income and adjusted EBITDA year-over-year.

Before turning to the segment results, I want to highlight the early new win successes at PeopleManagement and PeopleScout as we are beginning to see increased interest in clients using more variable labor.

In PeopleManagement, new wins on an annualized basis are \$44 million this year, up from \$16 million same time last year, mainly in manufacturing, logistics, and retail. We have seen similar growth at PeopleScout, where annualized wins are \$30 million this year, up from \$3 million the same time last year. New client growth is coming from a variety of industries including retail, health care, and transportation, which is very encouraging.

Now, let's turn to our results by segment, starting with PeopleReady. PeopleReady is our largest segment, representing 59% of trailing 12-month revenue and 69% of segment profit. PeopleReady is the leading provider of on-demand labor and skilled trades in the North American industrial staffing market. We service our clients via a national footprint of physical branch locations, as well as our JobStack mobile app. PeopleReady's revenue was down 13% during the quarter versus down 18% in Q4.

PeopleManagement is our second largest segment, representing 33% of trailing 12-month revenue and 22% of segment profit. PeopleManagement provides onsite industrial staffing and commercial driving services in the North American industrial staffing market. The essence of a typical PeopleManagement engagement is supplying an outsourced workforce that involves multi-year, multimillion-dollar onsite or driver relationships. PeopleManagement revenue is reaching pre-pandemic levels by growing 7% in the first quarter versus up 5% in Q4.

Turning to our third segment, PeopleScout represents 8% of trailing 12-month revenue and 9% of segment profit. PeopleScout is a global leader in filling permanent positions through our recruitment process outsourcing and managed service provider offerings. Revenue was down 13% during the quarter versus down 24% in Q4.

Now, I'd like to shift gears and update you on our key strategies by segment, starting with PeopleReady. Our long-term strategy at PeopleReady is to further digitalize our business model to gain market share and improve efficiency of our service delivery cost structure. Most of our competitors in this segment are smaller "mom and pops" that don't have the scale or capital to deploy something like our JobStack mobile app. So this, along with our nationwide footprint, is what makes us unique.

As a reminder, we began rolling out JobStack to our associates in 2017 and in 2018, we launched the client side of the app. We now have digital fill rates north of 50% and more than 26,000 clients using the app. In Q1 2021, we filled 716,000 shifts via JobStack, representing a digital fill rate of 58%. Our client user count ended the quarter at 26,500, up 13% versus Q1 2020.

Driving heavy client user growth continues to be our primary focus. A heavy client user has 50 or more touches on JobStack per month, whether it's entering an order, rating a worker, or approving time. JobStack heavy client users continue to post better year-over-year revenue growth rates compared to the rest of the customer base.

In Q1 2021, the revenue growth differential between heavy client users and non-users was over 35 percentage points on a same customer basis. This growth differential is largely driven by wallet share takeaways from competitors as heavy client users are telling us a major reason they are moving share to PeopleReady is due to JobStack's unique capabilities. Our focus on heavy client user growth is becoming more material in our overall results. We increased our heavy client user mix from 24% of PeopleReady's business in fiscal 2020 to 31% in Q1 2021.

With the foundation of our digital strategy in place, our focus has turned to how we can better serve our existing customers and reach new clients. Combining the strength of our geographic footprint with technology, centralized work activities, and repurposed job roles will allow us to achieve this goal with greater efficiency.

At the end of the first quarter, we launched two market pilots. The pilots use the elements I mentioned to provide an altered go-to-market approach and are intended to strengthen the local presence in the communities where we do business. While it is still too early to report results, we are encouraged by the progress made by the team. We'll continue to update on this front as the pilot progresses.

Turning to PeopleManagement, our strategy is to focus on execution and grow our client base. Last year, we sharpened our vertical focus to target essential manufacturers and made investments in our sales teams to enhance productivity. With these initiatives in flight, we have broadened the strategy to expand our geographic footprint by targeting more local and underserved markets. We are seeing strong results as mentioned earlier with new win growth during the first quarter. Finally, we are investing in customer and associate care programs in an effort to serve our client needs better and improve retention.

Turning to PeopleScout, the strategy leverages our strong brand reputation to capture opportunities in an industry poised for growth. Before COVID struck, we, along with our competitors, experienced a trend towards more insourcing, with some clients bringing more recruitment functions in-house. Many of the in-house teams have been reduced or eliminated during the pandemic, and we are seeing companies move to hybrid and fully outsourced models as the economy recovers.

To capitalize on this trend, we have made investments in our sales team. We believe there is a big opportunity to increase wallet share at our existing clients and diversify the industry mix within our portfolio by adding new clients. These efforts are already delivering results, as shown by the \$30 million of annualized new business wins across multiple sectors as I referenced earlier.

I'll now pass the call over to Derrek, who will share greater detail around our financial results.

Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

Thank you, Patrick. Total revenue for Q1 2021 was \$459 million, representing a decline of 7%. We posted net income of \$7 million, or \$0.20 per share, compared to a net loss of \$150 million in the prior year, which included a

non-cash impairment charge of \$152 million net of tax. On an adjusted basis, we delivered adjusted net income of \$9 million, or \$0.25 per share, an increase of \$9 million compared to Q1 2020. The increase in adjusted net income was driven by a decline in SG&A expense. Adjusted EBITDA was \$13 million, an increase of 189% compared to Q1 2020, and adjusted EBITDA margin was up 200 basis points.

Gross margin of 24.1% was down 140 basis points. Our staffing businesses contributed 150 basis points of compression, with 130 basis points due to a benefit in the prior year for a reduction in expected healthcare costs. Adjusting for this, our overall gross margin was nearly flat. There are also some other offsetting gross margin trends that I would like to point out. In our staffing businesses, higher pay rates in relation to bill rates and sales mix provided 90 basis points of drag, offset by 70 basis points of benefit from workers' compensation expense, largely related to favorable development in our reserves. PeopleScout also contributed 10 basis points of expansion.

Turning to SG&A expense, we delivered another quarter of strong results, with expense down \$20 million, or 17%. Maintaining our cost discipline is important, but of equal importance is doing it in a way that preserves our operational strengths to ensure the business is well-positioned for growth as economic conditions continue to improve. We are also implementing pilot projects to further reduce the costs of our PeopleReady branch network through greater use of technology, centralizing work activities, and repurposing of job roles, while maintaining the strength of the geographic footprint. These pilots will occur throughout 2021, and if successful, could lead to additional efficiencies in 2022.

Our effective income tax rate was a benefit of 2% in Q1, as a result of our job tax credits exceeding the income tax associated with our pre-tax income.

Turning to our segments, PeopleReady saw revenue decline 13%, while segment profit was up 55% due to lower expense. PeopleReady experienced encouraging intra-quarter revenue improvement, with March down 3% compared to January down 18%. We were also pleased to see revenue trends improve in some of our hardest hit markets. Non-residential construction improved to a decline of 8% in March versus a decline of 24% in Q4 2020. And hospitality improved to a decline of 9%, from a decline of 49% for these same time periods. California was our largest market pre-COVID and was one of our hardest hit geographies. California's revenue trend improved to a decline of 4% in March versus a decline of 27% in Q4 2020.

PeopleManagement saw revenue increase 7%, which in combination with lower expense drove a \$3 million increase in segment profit. PeopleManagement also experienced encouraging intra-quarter revenue improvement, with March up 15%, compared to 5% in January. Of the \$44 million of annualized new business wins Patrick mentioned, \$2 million was recorded in Q1, and approximately \$28 million is expected over the remainder of the year.

PeopleScout saw revenue decline 13%, while segment profit increased 61% as a result of lower expense. Sequentially, revenue was up 11% compared to Q4 2020. As Patrick noted, we are encouraged by the new business wins and the results within our hardest hit industries, including travel and leisure, which went from a decline of over 50% in Q4 2020 to a decline of about 25% in March.

We are also optimistic about the long-term signals we are seeing in these new wins. First, there are signs of a growing interest from clients to shift back from an in-house model to an outsourced model. Second, wins are coming from a variety of industries, including retail, healthcare, and manufacturing. Of the \$30 million of annualized new business wins Patrick mentioned, \$2 million was recorded in Q1, and approximately \$14 million is expected over the remainder of the year.

Now let's turn to the balance sheet and cash flows. Our balance sheet is in excellent shape. We finished the quarter with \$88 million in cash, no outstanding debt, and an unused credit facility. While our profitability increased compared to Q1 last year, cash flow from operations was flat, largely due to less benefit from working capital associated with better revenue trends this year.

Now, I'd like to take a few minutes to discuss certain forward-looking information we are providing to help investors form their own estimates. This information and more can be found in the quarterly earnings presentation filed today. In regard to the top line, the historical sequential revenue growth from the first quarter to the second quarter has averaged about 10%. This average excludes 2020.

Turning to gross margin for the second quarter, we expect expansion of 180 basis points to 220 basis points. Segment revenue mix and operating leverage from higher volumes at PeopleScout are expected to drive approximately 120 basis points of the improvement, with the remainder coming from non-repeating workforce reduction costs incurred in Q2 2020. We expect gross margin expansion of 40 basis points to 100 basis points for the full year.

For SG&A, we expect \$108 million to \$112 million for the second quarter, and \$446 million to \$454 million for full year. I'd also like to remind everyone that we will anniversary most of our 2020 cost reduction actions in April of 2021.

For capital expenditures, we expect about \$14 million for the second quarter, and \$37 million to \$41 million for the year. Included in our capital expenditure plan are build-out costs for our Chicago support center, much of which will be reimbursed by our landlord. Additional details are provided in our earnings presentation filed today.

Our outlook for fully diluted weighted average shares outstanding for the second quarter of 2021 is 35.1 million.

We expect our effective income tax rate for the full year, before job tax credits, to be about 26% to 30%. And we expect to benefit from job tax credits to be \$8 million to \$10 million.

With the momentum of our first quarter results, a solid balance sheet, and a strong mix of operational and technology strategies, we feel we are well-positioned to take advantage of growth opportunities during the recovery and beyond.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question is from the line of Josh Vogel.

Josh Vogel

Q

Analyst, Sidoti & Co. LLC

Thank you. Good afternoon, guys. Really impressive results, nice to see the recovery in the business here. My first question is more around the activity. I know it's still early, but with vaccine rollout and prospects for a brighter economy, are you seeing those who previously dropped out of the workforce, are they starting to reengage in a meaningful way? And if so, which sectors are you seeing this happen?

A

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Yeah, Derrek, why don't you take a first shot at that, and then I'll add some color? Thanks for the question, Josh.

A

Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

Hi, Josh. Well, as far as applicants go, those that have dropped out of the workforce, I wouldn't say we've seen anything meaningful coming back yet. There's a couple of challenges, one that's newer and one that's been ongoing for a while. The unemployment benefits and the extension of those, particularly the federal unemployments that go – benefits that go through September 6, that's still weighing in on the market. For somebody that's making \$10 an hour, the unemployment benefits can easily be more than you could be making at a job.

The second part is with the stimulus checks that have been coming in, this latest round at \$1,400 per person and plus dependent, we saw a noticeable decline in the number of people coming in, what we refer to as the funnel, new applicants coming in. So March was down about 25% compared to February. Now we have seen that rebound with our last couple weeks of results. So I wouldn't say at this point we've seen anything meaningful coming back, Josh, primarily in our opinion due to those two factors that I just mentioned.

Josh Vogel

Q

Analyst, Sidoti & Co. LLC

That's helpful. Thank you. On the other side, there's a lot of talk recently about how US employers that might have trouble hiring workers fast enough in coming months which help with projected things or demand growth, and that would certainly make working with you even more beneficial or relevant. You gave some good numbers around business wins. I was wondering if you could just talk a little bit about the client pipeline recently with existing clients both around their activity and the size or demand of their orders.

A

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Yeah, Josh. This is Patrick. As you mentioned earlier, as vaccination rates are rising, so does the confidence in the underlying economy. Many clients right now are – as they're doing their planning, they're looking past the pandemic and they're planning their hiring needs around – at least the conversations we're having around a pretty strong recovery. So demand is clearly picking up across the vast majority of the verticals that we're supporting.

And related to new wins, we're seeing a lot of wins in manufacturing, transportation, hospitality as you might expect. The pipelines for those are also particularly strong. As you rightly noted, when it becomes more difficult to hire people, like the situation we find ourselves in now, where there's a supply-demand imbalance that in our view

is temporary, the need for services, like the ones that TrueBlue provides, become more pronounced. And so the challenge right now is making sure we've got enough candidates to fill the roles.

When you look at fill rates, our big on-site clients that are typically delivered through our PeopleManagement business, our fill rates have been holding pretty strong. We're running in the 90% range or so, which is pretty good considering the environment we're operating in. We're seeing a little bit more of a challenge in some of the shorter notice-type assignments that you see out of PeopleReady. We're getting a lot of short notice requests from clients, and that's why we exist as a firm is to help support those. But we've definitely seen a little bit of a pullback in the fill rates for those shorter-term or short-burst assignments. So headlines are there is a bit of a supply-demand imbalance right now, where there's not enough supply. But we think it's temporary – a temporary timing and should normalize fairly quickly. As Derrek mentioned, we saw our applications spike right back up in April after we saw that dip, when the additional stimulus came in in March.

Josh Vogel



Analyst, Sidoti & Co. LLC

Thank you. I appreciate all the insights on that. Shifting to guidance, with Q2 revenue, what has to happen to get you toward the higher end at 12% in June? Are we – do you expect kind of going back to seasonal trends in this half of the year based on seeing, where I know it's kind of – we're still in a fluid situation, but are you seeing this sequential tick-up, is this a structural shift in demand, or is there just pent-up demand coming out of the pandemic? Just want to get a sense of how you feel about the back half of the year, as well as Q2.

Derrek L. Gafford



Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

Yeah. Thanks for the question, Josh. Well, to get to the upper end of the outlook that we provided, and what the outlook that Josh is referring to is we just provided a historical perspective of sequentially how our Q2 revenue builds in comparison with Q1, excluding 2020. So roughly that's about 10%. I think the range we put on it was about 7% to 12%. This we called a midpoint 10%. I think it's in the upper end of that range; we just need some additional momentum coming from increased demand. So, along with that demand, the areas where we would need it the most, we've really – we've got great momentum in our PeopleManagement business. We've had that going. This is more about PeopleScout and PeopleReady. So we've – we had a great – this Q1 was one of our strongest showings in a long, long time as far as the number of new business wins at PeopleScout.

So the thing with our PeopleScout business though is those new business wins can take a quarter, maybe two quarters to actually get them in place. So that won't make a meaningful difference in our sequential revenue build from Q2 versus Q1, but there should be a sizable amount that falls in the back half from the PeopleScout business. For PeopleReady, it's continuing really to execute in our go back to growth strategy. We got close to that in March, Josh. And we just need to keep executing. I think we've made the right adjustments from a cost structure. Our teams are really focused on going to market and serving the customers really well. So I think we're positioned really well to just go and execute strong on the initiatives and strategies that we got underway.

Josh Vogel



Analyst, Sidoti & Co. LLC

All right. Great. If I could just sneak in one more, and only if you have it at your fingertips, but can you share what the five-year historical average was for sequential growth from Q2 to Q3, Q3 to Q4, if you have it?

A

Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

I don't have that one handy, Josh.

Josh Vogel

Q

Analyst, Sidoti & Co. LLC

Okay. No worries. Well, thank you, guys, for taking my questions, and certainly looking forward to seeing how the rest of the year progresses.

A

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Thanks, Josh.

Operator: [Operator Instructions] Your next question is from the line of Mark Marcon.

Mark Steven Marcon

Analyst, Robert W. Baird & Co., Inc.

Hey, good afternoon, guys. Encouraging results. Just wondering if you can talk a little bit about JobStack, what are you seeing there? Just as we think about things sequentially, what drove the sequential trend, and how do you think things are progressing towards the later ends of the – later parts of the quarter in terms of – and going into April, you kind of gave some weekly figures in your presentation, but just wondering specific to JobStack how that's going.

A

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Hey, Mark. This is Patrick. I'll go ahead and take that one. Maybe we just start with our longer-term vision for JobStack and PeopleReady, which is essentially to transform our business and our industry in terms of how we engage with associates and with clients. And when we think about the types of positions that we're filling in PeopleReady, many of them don't have pre-requirements. And so it really lends itself well to leveraging the digital platform and artificial intelligence to create some competitive advantage.

And we're seeing that in the growth rates for the – what we term heavy users, essentially clients that are using the tool in their day-to-day interactions with PeopleReady. And we're seeing the share being moved. If you look at the heavy users, we're seeing growth rates that are more than 35 points higher than those clients that are not using

JobStack. And so, what we've been focused on in recent quarters is getting the percentage of clients that use the tool to use it in a heavy way. And so we've seen some pretty nice movement there. We're up over 30% now in terms of our revenue stream in PeopleReady coming from heavy users, that's up about 7 points from where we were a year ago at this time. Our expectation is that by December, we'd have that number in the vicinity of 50%.

And so you can do the math there, it starts to get more significant and more compelling as the percentage of PeopleReady's business is being engaged with heavy users. And so that's where we're spending our sales and marketing efforts to a large degree on our install base. And obviously, we're all signing up new clients as well. So that's probably the biggest focus in targeting towards that 50% heavy user number by the end of the year, and we've got over 26,000 clients that are using the tool. That's up about 10% year-over-year. We're expecting that number to climb pretty significantly throughout the year. So those are some of the headlines on JobStack, happy to answer any more detailed questions, or Derrek, if you have anything you'd like to add, feel free.

Mark Steven Marcon

Analyst, Robert W. Baird & Co., Inc.

So just when we think about the sequential pattern, I mean, from a year-over-year perspective clearly better, and obviously Q1 is a smaller PeopleReady quarter than Q4. So, that's one of the things. But just wondering, like, is there anything that we should look at from a sequential perspective? You mentioned the short-term assignments, like what – how easy is it to – the fill rates coming off of JobStack, when you mentioned kind of the March dynamic, was that in terms of the stimulus checks? Did that end up impacting things at all, or how should we think about that?

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Well, yeah, in terms of – from a supply side perspective and just leaving JobStack aside for a moment, there are definitely some headwinds, Mark, in terms of the amount of effort that we're having to put in, along with everyone in the industry, by the way, of getting positions filled. We saw about an 8% decline in PeopleReady in terms of fill rates, and as I mentioned earlier, about a 2% decline for PeopleManagement. So there's clearly a supply-demand imbalance right now. As I mentioned earlier, I think it's very temporary. And in fact, we saw a pretty big bounce back in the number of applicants. Derrek had mentioned, we saw about a 20% decline in applicant flow in March compared to February. That bounced right back here in the last couple of weeks in April. So, not to say we're out of the woods yet on the supply side, but we saw a pretty nice bounce back.

Related to JobStack, it just helps us in terms of how we engage those workers in a 24/7 manner. We can do push notifications to them. We're marketing to them hard, any time a new position opens up that would make sense for them potentially and so it just gives us a better way to engage with our clients and our workers.

In terms of any kind of guidance in Q2 related to JobStack, I would just think about, in the most simplistic terms, those heavy users that were at roughly 31% now and we're planning on being at 50% by the end of the year. You can start to do some math in terms of how much of a larger portion that makes up of our total and with those higher growth rates, it should be a nice tailwind for us in Q2 and beyond.

Q

Mark Steven Marcon

Analyst, Robert W. Baird & Co., Inc.

I appreciate that. And for those who aren't converting to becoming a heavy user, what's the most significant reason and what's changed that is – because it sounds like you're starting to see a nice ramp on that. So what's been the biggest improvement?

A

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Well, in some cases, it's a requirement. Without getting into too much detail, Mark, imagine a scenario where a client has a number of requirements for a job. So as an example, if you're working in a cafeteria at a hospital, you need to have a recent tetanus shot. You need to have a recent hepatitis C shot. You need – so we need fields for all of the different requirements and in some cases, we didn't have fields to track where every worker had every requirement so those jobs we can't put on JobStack because we don't want to send someone out to the assignment that isn't prequalified for the role.

What's been happening over time is we've been adding fields every quarter that goes by to reduce the number of positions that aren't eligible for JobStack because of the complications of having pre-requirements. So that's one reason why we're seeing some lift and we'll continue to work through those until as many of those pre-requirements we've got the data for all of our workers.

The second thing is just getting out with our clients and getting them more comfortable with it and sharing success stories with them because the second biggest hesitancy is just people are comfortable picking up the phone and calling the branch as opposed to making an order or approving time on their phone. And so that's been the second biggest challenge, Mark, is just getting people comfortable with not picking up the phone for important matters like placing orders for workers.

Q

Mark Steven Marcon

Analyst, Robert W. Baird & Co., Inc.

Okay. And then, Patrick, you mentioned all these really nice wins both in terms of PeopleManagement and PeopleScout. For those wins, the majority of them, could you say whether or not they're brand-new to basically either using a service like PeopleManagement or PeopleScout or are they with a company that had insourced and now they're going back to outsourcing? How would you characterize things?

A

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Yeah. It's a little different between PeopleScout and PeopleManagement. In PeopleScout's case, one of the things we're pretty excited about is about half the wins that we had were first-time buyers, Mark. So it just kind of goes with that feeling that we're starting to see a reversal of what were some insourcing trends in 2019 pre-pandemic. We're seeing a lot of that sentiment being reversed out, so half the wins in PeopleScout were first-time

buyers that had never had an RPO engagement before. The other half were takeaways from head-on competitors.

In PeopleManagement's case, most of the engagements that we won were takeaways or a new site that's being brought onboard. It isn't as pronounced as PeopleScout where it's a first-time user of staffing services.

Mark Steven Marcon

Analyst, Robert W. Baird & Co., Inc.

Great. And then can you just talk about regionally what you're seeing just in terms of broadly are there any big discrepancies across the country in terms of areas that have come back faster relative to others?

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

So, why don't we have Derrek cover that? He's probably got all the details at his fingertips.

Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

Well, one that we talked about regionally that we were really excited about in prepared comments, Mark, is state of California. So, state of California has probably been one of our biggest struggles as far as rebound throughout 2020. California's revenue decline averaged, somewhere probably between, let's call it about – on average about 10 points worse than the overall PeopleReady trend. And as we got into March, we saw that drop down to about – a decline of about 3% in California. So, pretty close to the PeopleReady overall revenue decline.

We've seen other places like Florida making really nice progress as well. Florida actually got to growth in March. I mentioned those two in particular just because of the size. Those are our two largest markets and Texas became close to flat by March as well, our third largest market.

Mark Steven Marcon

Analyst, Robert W. Baird & Co., Inc.

Great. And are there any – was there anything in the quarter that you viewed as basically being, hey, there is a one-time boost in terms of revenue from any one particular client? Or probably speaking, the economy is getting better but are there any clients that you currently have that could potentially have some sort of a dislocation either themselves or with you because every once in awhile over the years, there have been some elements that have been lumpy and less predictable or less transparent?

A

Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

Yeah. There really wasn't any of that kind of contribution to this quarter, any large projects, anything significant. We like to call those out when they do happen because we of course, we anniversary those, want to make sure that you're all aware of them.

And then from a customer's size perspective, we just don't have anything. There have been times where we've had a customer approach 10% of our revenue. So, as we see in here today, we've got a couple of customers that have been with us for over 20, call it, 20 years that are each 3% of the total company revenue. We've got one that's at 2% and then everything else falls off pretty rapidly there.

So there can always be something that happens with a customer out there. Business happens, but there's no rumblings from any customers that I'm aware of to bring your attention to and not any anomalies as far as a big project contribution in this quarter's results.

Q

Mark Steven Marcon

Analyst, Robert W. Baird & Co., Inc.

Great. Thank you very much.

Operator: Your next question is from the line of Jeff Silber.

Q

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Thank you so much. Wanted to go back to your early discussion about supply constraints and forgive me if you guys talked about this, but can you talk about what's going on from wage inflation and potential impact on billing rates or spread?

A

Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

Yeah. Hi, Jeff. I'll take that one. Well, the bill pay raise spread is something we spend a lot of time talking about during 2020, less of a challenge when it came to our PeopleManagement business but much more of a challenge when it came to our PeopleReady business because of the short duration of the job assignment. Many of these things, as you know, are really short-term projects, not on contract.

And so what we were seeing throughout 2020, if I take a look at Q3 and Q4, we had pay rates outpacing bill rates by about 3 percentage points. As we moved into the first quarter, that gap narrowed. We had bill rates, or excuse me, pay rates outpacing bill rates by about 1 percentage point. So it's been cut down quite a bit.

We talked about our take on the industrial staffing market. What we saw last year, we think, is what typically happens in a business like ours, particularly PeopleReady and then as we swing back to growth, get more pricing power and start closing that gap and then start moving on to recover some of the bill pay rate erosion to the gross margin. And our outlook for the year anticipate that that will continue to happen, meaning that we'll continue to get some gross margin back by positive bill pay rate spreads as we get deeper into the year.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Okay. Fantastic. You actually took my follow-up question, so I appreciate that. You gave us some historical trends of sequential growth in revenue from 1Q to 2Q kind of to be used as a framework for the guidance for the current quarter. Anything to call out by the specific line items or would it just make sense to kind of see the historical trends in your different segments taking place this quarter?

Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

I don't have anything really particular to call out. I think the historical sequential trends, of course, stay outside of 2020, get back to older years. Those are pretty indicative for us. The one that has the most variability sequentially is the PeopleReady business because of the increased mix of outside work. You could see revenue lift by up to 25% sequentially if you compare Q3 of a given year to Q1. We do anticipate that would still happen this year.

So, no key callouts there, Jeff. I think historical sequential comparisons are helpful here, and while we're not giving revenue guidance, we did want to at least give the sequential trend from Q2 versus Q1 just because Q2 last year, it's not that helpful from a prior year comparison.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Okay. Appreciate that framework. And finally, I've been getting a number of questions since President Biden has announced his infrastructure plan and I know it's still way early, but do you think there's anything in there that your company might benefit from?

Derrek L. Gafford

Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

Well, we've got our eye on that, too, and we think that while it's difficult to ascertain how much benefit, if you just think about it conceptually, there's a lot of goodness in it, we think, for our company. When it comes to construction, there would be some projects we would participate on, not the majority. Many of those public works projects are union presence. That wouldn't be a place where we would have people onsite with the construction.

But we're – 90% of our business is industrial staffing serving the blue collar industry so those industries that are manufacturing the goods, who are transporting and warehousing them, those all speak to center suit of the industry sectors that we serve. So we think there could be possibly some nice tangential benefit to our business as a result of it.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Okay. Great. That's really helpful. Thanks so much.

Q

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

I think I'll just add one thing to that as well, which would be to what you said, Derrek, in addition would be around solar. We've got a pretty strong position, a lot of referenceable clients in the solar sector. And depending on how the bill shakes out, I would suspect that we would benefit nicely from more solar projects.

A

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

That's really helpful, Patrick. Thanks so much.

Q

Operator: [Operator Instructions] And there are no further questions at this time.

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Well, thank you, operator. In closing, I'd just like to thank our employees, our associates, and our clients for their efforts throughout the pandemic. And thank you, everyone, for attending. We look forward to speaking with you at the next quarterly earnings call and have a great rest of the week, everyone.

Operator: That does conclude today's conference. Thank you for participating. You may now disconnect.

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