

Barrett Business Services, Inc. Third Quarter 2025 Earnings Call

Good afternoon, everyone, and thank you for participating in today's conference call to discuss BBSI's Financial Results for the Third Quarter Ended September 30, 2025.

Joining us today for BBSI is President and CEO, Mr. Gary Kramer; and the company's CFO, Mr. Anthony Harris. Following their remarks, we will open your call for questions. Before we go further, please take note of the company's Safe Harbor statement within the meaning of the Private Securities Litigation Reform Act of 1995.

The statement provides important caution regarding the forward-looking statements. The company's remarks during today's conference call will include forward-looking statements. This statement along with other information presented that is not historical facts are subject to a number of risks and uncertainties. As results may differ materially from those implied by the forward-looking statements. Please refer to the company's recent earnings release and the company's quarterly and annual reports filed with the Securities and Exchange Commission for more information about the risks and uncertainties that could cause actual results to differ from those expressed or implied by the forward-looking statements.

I would like to remind everyone that this call will be available for replay through December 5, starting at 8 PM Eastern Time tonight. A webcast replay will also be available via the link provided in today's press release as well as available on the company's website at www.bbsi.com.

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

Thank you. Good afternoon, everyone, and thank you for joining the call. We continue to build on our momentum in the third quarter, delivering a record number of worksite employees. Solid revenue growth was fueled by new client sales, expanded adoption of new products and excellent client retention.

Moving to our financial results and worksite employees. During the quarter, our gross billings increased 8.6% over the prior year's quarter. We continue to execute various strategies to increase the top of the sales funnel and we achieved a record number of worksite employees from new client adds. Client satisfaction continues to drive favorable retention rates. Every year, we conduct a survey of our clients to evaluate customer needs and satisfaction, and I am pleased to report that our Net Promoter Score remains in the high-60s for a third straight year. This gives us great confidence in the value our clients place on the service and solutions we provide.

Our clients love what we do and they are ready and willing to spread the word about BBSI. The result of all these efforts or what I refer to as controllable growth, is that we added a record 10,400 worksite employees year-over-year from net new clients. However, our client hiring was lower than we forecasted. We experienced a slowdown in California across most industries, fueled by macro uncertainty, including tariff policy and interest rates. So, our

record controllable growth was slightly offset by a decline in our clients' workforce and resulted in a total growth of worksite employees by 6.1%.

Moving to our staffing operations. Our staffing business declined by 10.3% over the prior year quarter and was within our expectations. We continue to see reluctance from our clients to place staffing orders amid the macroeconomic uncertainty. We continue to execute our strategy to recruit for our PEO clients and place 116 applicants in the quarter, which is 11 more than the prior-year quarter.

Moving to the field operational updates, we are very pleased with our entrance into new markets with our asset-light model. We have 22 total new market development managers in various stages of their development. These folks have been gaining traction and consistency and have added approximately 1,400 new worksite employees through Q3.

In September, we had grand openings for our new Chicago and Dallas branches. In each of these locations, we have formed business teams with local folks to support our clients and have moved into traditional brick-and-mortar BBSI branches. We are also planning another grand opening for Nashville in January. We continue to see positive results from our investments in new markets and are actively recruiting additional new market development managers.

Regarding product updates, we continue to execute on the sale and service of BBSI Benefits, our health insurance offering. Our strong momentum continued into the third quarter. We added approximately 1,300 participants to our various Benefits products in Q3. I am pleased to report that through October, we have approximately 750 clients on our various plans with over 20,000 total participants. We are gaining traction and continue to improve the sales and service of BBSI Benefits, our value proposition resonates well, and we're having success with small and large clients in white and blue collar industries in every state we operate and with a diverse distribution channel.

Our teams are now in the mix of the heavy selling and benefits renewal seasons. As many of you are aware, health insurance rates are increasing, which is causing consumers to shop around. Our October submissions for one-to-one transactions are 60% greater than October of the prior year. I attribute this to the market forces, plus the trust we have earned from our referral partner network. We anticipated an increase in activity and we have staffed up accordingly. It is still too early to comment on but we are optimistic that we can repeat or exceed our successful selling campaign from the prior year.

Next, I'd like to shift to our 2025 IT product objectives. I've previously mentioned that we've been investing in our tech stack on the product side to better service and support our clients. Over the last couple of years, we've made additional investments in myBBSI to support our BBSI benefits offering, adding a learning management system, added an applicant tracking system as well as numerous integrations with third parties. We continue to execute our product road map to round out the employee life cycle experience.

We think in this life cycle from the client's perspective, from when an employee is hired, when

the employee retires and everywhere in between. We will be replacing or bolstering attributes of the life cycle with additional product launches over the next six months. Our client-centric focus is on delivering more technology and more products, all supported by the best local talent. We believe these enhancements will make it easier to sell to new customers and retain existing businesses. Additionally, we believe this offering will strongly resonate with white collar businesses and larger employers.

Next, I'd like to shift to our view of the remainder of the year. We had consecutive quarters of great momentum. We are consistently growing our WSE stack. We ended Q3 with a record number of worksite employees and we continue to be optimistic about the road ahead. We have consistently achieved strong, controllable growth by focusing on the needs of our clients and by adding new clients. We have more products to sell, more people selling them, and more referral partners recommending BBSI. Now, I'm going to turn the call over to Anthony for his prepared remarks.

Thanks, Gary, and hello, everyone. I'm pleased to report we finished the quarter with strong results. Gross billings increased 8.6% to \$2.32 billion in Q3 2025 versus \$2.14 billion in Q3 2024. PEO gross billings increased 8.8% in the quarter to \$2.3 billion, while staffing revenues declined 10% to \$19 million in the quarter.

Our PEO worksite employees grew by 6.1% in the quarter, which, as Gary noted was driven by a record number of WSEs added from new clients. This was coupled with ongoing favorable client retention, which continued a strong trend of controllable growth. This was partially offset by modest net negative client hiring year-over-year, compared with our original expectation of flat hiring in the quarter. Average billing per WSE per day increased 2.5% in the quarter, which was driven by continued increasing wages.

Looking at year-over-year PEO growth billings growth by region for Q3, Southern California grew by 9%. Northern California grew by 3%, Mountain grew by 13%, East Coast grew by 14%. The Pacific Northwest declined by 3%; and our asset light markets grew by 132%.

Southern California represents our largest region and has maintained strong growth, driven primarily by strong client adds and favorable client retention. Northern California was the region most negatively impacted by client hiring trends in the quarter, with several larger clients having an outsized impact. The strong Mountain and East Coast results also continue to be driven by strong, controllable growth performance, and the Pacific Northwest has continued to be primarily soft due to economic conditions in the region.

Turning to margin and profitability. Our workers' compensation program continues to perform well and benefit from favorable claim frequency trends and favorable claim development. In Q3, we recognized favorable prior year liability and premium adjustments of \$3.9 million, compared to favorable adjustments of \$4.3 million in the third quarter of 2024. We previously discussed that workers' compensation pricing has been trending downward for several years. While these pricing reductions have largely been offset by cost savings, they have nonetheless created some margin pressure.

Looking at our overall margin for the year, results are broadly in line with expectations, though modestly lower than prior year due to a combination of this pricing pressure and lower staffing volumes. As a reminder, our staffing business carries a higher margin rate than our PEO services.

Looking ahead, we are optimistic about the pricing environment. The California insurance commissioner recently approved an average 8.7% increase in workers' compensation premium rates, and several carriers in the state have filed for similar rate increases. We're also seeing increased pricing and competitive renewal quotes for both workers' compensation and health benefits, which is leading to more shopping in the market.

As a reminder, our workers' compensation claims are primarily fully insured and our client health benefits offering is 100% fully insured. Our strategy of de-risking our insurance operations continues to bring stability to our operating results while continuing to allow us to offer best-in-class, high value products to our small business customers.

Moving to our operating costs and overall profitability. Our results have continued to benefit from operating leverage with SG&A costs continuing to grow more slowly than our billings and gross margin. For Q3, SG&A expense increased by approximately 2% due primarily to employee-related costs.

Looking at investment income. Our investment portfolios are \$1.9 million in the third quarter, down approximately \$300,000 from the prior year due to lower average interest rates. Our investment portfolio continues to be managed conservatively with an average quality of investment at AA. The combined results of these activities was 7% growth in net income per diluted share in the third quarter to \$0.79 compared to \$0.74 per diluted share in the year ago quarter.

Our balance sheet remains strong with \$110 million of unrestricted cash investments at September 30, and no debt. We continue our consistent approach to capital allocation, making investments back into the company through product enhancements and geographic expansion, and distributing excess capital to our shareholders through our dividend and stock repurchase plan.

Continuing under the board's August 2025 buyback program announced last quarter, BBSI repurchased \$8 million of shares in the third quarter at an average price of \$47 per share. The company also paid \$2.1 million in dividends in the quarter and reaffirmed its dividend for the following quarter. This brings our return of capital to shareholders to \$10 million in the quarter and \$31 million year to date.

Now, turning to our outlook for the full year. We now expect gross billings growth between 8.5% and 9.5% for the year after adjusting for the slower client hiring in the quarter. We continue to expect our year end controllable growth to be strong and WSEs to increase between 6% and 8% for the year. Given my earlier comments on pricing and margin, we are tightening our range for gross margin as a percent of gross billings and expect it to be between 2.95 and 3.0%. Finally, we continue to expect our effective annual tax rate to be between 26%

and 27%.

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

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Your first question comes from the line of Jeff Martin from ROTH Capital Partners. Your line is now open.

Thanks. Good afternoon, Gary and Anthony. Appreciate taking the questions. I guess I'll start on the BBSI benefits. I'm curious how policies are performing. I know there's a lot of noise out there in the marketplace right now and claims costs are rising at an unexpected rate. Just curious to get your perspective on that and how it might be impacting your policies. I know you don't take the risk, but still curious.

Yeah. I mean, it's an important part, Jeff, as we don't take the risk on health insurance and we've de-risked on the workers' comp. But at the end of the day, we've got to be good stewards of capital and good underwriters, and we're in a good spot. You've got a lot of carriers on the program here in many different states. But the one thing that's common is rates are going up and they're going up for every carrier in every state for everybody. You're seeing that with all of the public insurance companies and the rate filings and everything going on.

So I can just tell you that I don't think our rates are going up any more than anybody else's. But what I think we're seeing is just when folks are getting rate increases depending the size of the company and the size of the program they're in, if it's priced to risk, they're seeing some large – larger increases. And when that happens, you're seeing a lot more accounts go out to market. So, our volume, for what's coming in to us, for one-to-one business through October was about 60% higher than what we saw or 60% more opportunities than we saw on the prior year. And I think that's twofold, right, a, it's the market, but b, we're better at our craft and referral partners trust us, and referral partners are comfortable recommending us. So, ultimately, we're viewing this as an opportunity. Our renewal book is not as big as a lot of our competitors in the space. So, we can spend more time on offense than defense.

Great. And just was curious with record WSE adds in the quarter, congratulations on that, by the way. But just curious, how much do you think maybe BBSI Benefits is driving that, because you're clearly outperformed the industry?

You know, it's – I mean, we've been getting this question every quarter for the last couple of quarters. And it's not – it's honestly not one thing. It's many things. We've – between our tech, between our product, between our people, between our sales efforts, it's the – in the new markets, we're getting good results in our new markets. It's really 9 or 10 different things we've been working on, and we're feeling the tailwind from those 10 things. It's not one thing. It was a lot of years of hard work to get to where we are.

Okay. Last one for me is on the workers' comp side. With rates finally going up, I know you've called your shot many times, and it hasn't happened yet. But just curious...

Broken clock.

Just curious if you think we might see some growth acceleration on a WSE basis in 2026 as a result of that and how you think about 2026 WSE growth in general?

I'll talk about just the comp market. I'll have Anthony comment on the WSEs. We're seeing, you saw the regulator approve rate increases. It's mainly in California where we're seeing the rate increases. Let me preface it with that. But you're seeing the regulator make recommendations and approve rate increases. We're seeing carrier filings increase to about 8% to 10%. And then, as we started to get into the 00:18:29 renewal cycle, by that time, things were baked in and we were seeing incumbent renewals start to have price increases. So, with that triangulation, we kind of know that rates are going up that way and we're not going to be shy about asking for more rate too because more rate is warranted in the industry. So, we're able to – we have the pricing and the discipline and the process to make sure that we're going to go and try to capture those rate increases and we're working on that now for Q4 and for Q1.

And then honestly, time is going to tell. We're not into the 1/1 workers' comp cycle yet, and that's probably not going to really start until two more weeks. It's a slower or it's a later process than the benefits because you don't have to go through the enrollment for all the employees and whatnot. So right now we're having a mix for the benefit side. And then as soon as we get through that, we get into the workers' comp 1/1. So we're probably about 45 days away from knowing – no, we're probably about 30 days away from knowing how much business is going to go to market on the workers' comp side.

Yeah. On the WSE add trend going into 2026, as Gary said, there's not really one thing driving that. It's a combination of factors and they're all working well. And that momentum is building from 2024 and we continue to set those records as we continue to increase that volume. So going into 2026, there's nothing that indicates that that controllable growth momentum should slow down for us.

Very helpful. Thank you.

Your next question comes from the line of Chris Moore from CJS Securities. Your line is now open.

Hey, good afternoon, guys. Thanks for taking a couple. So recognizing you're not providing fiscal 2026 guidance. When you look at the gross billings estimate for this year, 8.5 to 9.5, what are the key variables that could make it meaningfully lower or higher in 2026?

Yeah, I mean, there is no change in the formula, right? And that's why we break it out the way we do. It's the controllable growth, which we've got a very good handle on, right? We're good at bringing on business. We're good at keeping the business we have, right? That is one of the – that's the lion's share of our growth this year and we probably anticipate that to be the lion's share of the growth next year. And then wage inflation is going to happen no matter what. It will probably be less than we've had coming out of the pandemic. And then, the known/unknown is do our clients add workforce or shrink workforce? It's hard to say what's

going to happen for that in 2026. The way we're modeling it now is if we think of how we started our year this year when we gave our initial guide and then we moved our guide up, we're conservative when we guide. That's probably how we would think of the guide as we got out into February of next year.

Sounds good. Obviously, your asset-light model is working well.

I'm just – can you estimate what kind of growth, percentage growth you could get over the next, say, five years from a geographic – from geographic expansion? Can you – can you get a point per year out of geographical expansion? Is that modest? Is that aggressive? Just trying to understand kind of how you're looking at that.

Sorry, I'm doing math on my calculator here. Yeah, I mean, we'll finish – from what we add this year, we'll finish with over plus or minus 2,000 WSEs that we're going to add from our asset light loan. And if you do that math, that's call that a 1.5 point for this year for WSE growth. Next year, I think we'll do better than that 2,000. So, I think our growth we can get out of there would be 2% plus on a WSE basis.

Got it. I will leave it there. Appreciate it, guys.

Your next question comes from the line of Vincent Colicchio from Barrington Research. Your line is now open.

Yeah, Gary. Nice quarter on the WSE additions. And just curious what the new client pipeline looks like versus a year ago and sequential periods, I assume it's healthy.

Yeah. I mean, we – we have a lot of effort on getting our – getting the top of the funnel filled. And then after you get to the top of the funnel, how do you get the discovery meetings with our clients? How do we get to target with the prospects? How do we get to our consultative sale? We've got a very good process and good focus and attention on making sure that we're hitting our metrics and our numbers. Everybody kind of – everybody knows what they got to get done and everybody's working to get it done. And you're seeing the good results of that.

And honestly, it's one of those situations where we have more business in the funnel now than we did this time last year by a healthy percentage more especially with the benefit side.

That's great to hear. And then what are your expectations for existing client growth in Q4? And has your view of the overall economy changed given the weakness in California, or do you think it's transitory?

I'm laughing because transitory is one of those words that I think have been ruined by the Fed here. If we just think of for what happened with our clients in Q3, right? So Q1, our clients grew. Q2, our clients got back to flat. Q3, our clients started to reduce. The reduction was predominantly all of California. And in California, it was skewed to Northern Cal. And when you peel back and you look at the clients and the industries that they're in, in Northern Cal, the number one that we saw in Q3 is the construction and the trades. And that's one that I think is

transitory. We looked at – clients we talked to in the data, we looked at the new housing starts around the San Francisco Bay area dropped precipitously in Q3. Our clients had to reduce workforce to accommodate that lack of business.

The positive there for why I think that industry specifically is transitory because the clients we're talking to have orders for new home starts and we think that we're going to see benefit for them to rehire back in Q4 from the clients we're talking to. So that's a transitory.

so that's – that's a transitory. The ones that I don't believe are transitory are our next one that shrunk, and this was Northern Cal and Southern Cal, was transportation and logistics. And it's not a lot, but it's less than zero, right? So, we had them go negative. So, transportation and logistics. You know, Q1, we saw that business go up as folks were trying to get ahead of tariffs. Q3 came down as they were absorbing tariffs, or Q2, it came down. Q3, it came down more. I don't know if that one's going to rebound. I think that one, depending upon where we are, may stay there for a little bit.

And then the other one that we saw, the third biggest was – moving on was our retail shops, and our retail shops that are predominantly franchises. So, we do a lot of work with franchisees. And those franchisee business on the retail food front, we saw them pull back in Q3. And from what I'm reading with in that open market with the Chipotles and stuff like that, I feel like our clients weren't alone in that space. So, I don't believe that that one's going to come back either. But construction is – is one of our bigger industries. And if construction comes back, it makes up for all of that.

And you had mentioned that – your platform is connected to third-party services. Are you seeing any meaningful revenue from that as of yet?

That's not – when we – when we integrate with third-party systems. Predominantly, it's to provide better services and better value. It's not to do the upcharge, right? So if we hook into their GL or we hook into a different timekeeping or we hook into a different, bunch of different systems, it's call it as an ease of business for the client and another – another reason why they would stay with us, because we handle servicing for them. It's a – think of it as another barb in the hook for why our retention stays up so high.

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

Your next question comes from the line of Marc Riddick from Sidoti. Your line is now open.

Hi, good evening. Wanted to touch on the – a couple of things. First, maybe we can start with the – your thoughts, early thoughts on Chicago and Dallas openings, whether there was any things that were – that stood out as to maybe being different than what you were expecting there. And then, how that sort of plays into what you're looking for Nashville in the early part of next year.

Sure. That was – we opened – we did the grand opening for both branches, Chicago and Dallas in September and it was a fun event. The folks that were building out those branches and the

teams there, it was a big moment of accomplishment for them that they got to display their office, they had referral partners there and they had clients come in. I mean, it was just a nice feeling of they've been working really hard to get it done. They got it done and it was a great accomplishment, and it was really good. Both branches did an excellent job where they had clients, referral partners and folks from the community and folks in their business community and their business advisor groups all there, celebrating their success. So overall, both were great and both were – both – I'm proud of both of them for what they've done.

Excellent. And then, I wanted to shift over to the product, IT product objectives that you discussed and the focus of white collar and larger enterprise. So are there any sort of particular areas that you're that – that you see as opportunities there that you're more excited about than others, or maybe how that sort of, and to what extent, if any, sort of plays into to what extent if any it sort of plays into sort of the overall AI strategy that's out there?

Yeah, feel like you can't talk about anything without having AI in it. But just in general like we're...

I had to sneak it in where I could.

I mean, in general, we're building the technology. And we're building it with the most up to date technology that's AI-enabled. If you think of the employee lifecycle, it's everything from hire to retire and in between. And we're working to fill those holes and we're going to have a product launch in January. We're going to have a product launch in March. After we have the product launches, we can continue to make investments. But really what we're going to get to is a comprehensive what the industry calls human resource information systems, a comprehensive platform that has all of that. And really that platform, when you get into the white collar, when you get into the larger, more sophisticated clients, they look for you to have that platform. So I think we're going to have good tech with good integrations with great people. And I think that when you put that up against any other tech platform, if you can go tech for tech and have great people that are there locally to support it, why would you not go with BBSI?

Great. And then I appreciate you sharing the Net Promoter Score update. That's always really helpful and important. I wanted to – maybe the last one for me on the 60% increase on – as far as the – is there sort of anything that you saw there as far as the mix of those – is similar – is it similar to your existing mix or is there any differentiation that you saw maybe perk up, whether it's in a client vertical or by enterprise size? Thank you.

Yeah, good question.

I would say it's nothing different than the construction of the existing portfolio clients. It's really – if you think of why somebody joins BBSI, like, we don't care if it's for payroll or if it's for HR or it's for worker's comp, if it's for benefits, right? Whatever they join us for, we can sell that product. And then after we sell that product, we can bring the best at BBSI. And when we wrapped, when we wrapped the product with the best to BBSI, that's why we get the retention we get, right? So if we can bring them in for benefits and then keep them in – and do the HR, then great. If we bring them in for comp and throughout the services then great. So just in

general, we try to find their pain point, try to solve their pain point and bring them the rest that all – that we have to offer. So we don't – we're not targeting vertical A or vertical B or white collar this or blue collar that. It's really what problem can we help that client solve? And then how do we solve problems that they didn't even know they had?

Great. Thank you very much.

Your next question comes from the line of Bill Dezellem from Tieton Capital. Your line is now open.

Thank you. Gary, you referenced a WSE change Q1 to Q2 to Q3. Did the hours worked trends mirror that there was a full WSE numbers?

Yeah. Bill, this is Anthony. We have seen a slight reduction in average hours worked. So we noted that last quarter in my remarks, I'm not sure if I'd put it at this time. It wasn't actually quite as significant this time, but it was a small decrease year-over-year and hours worked as well. So that is part of the overall softening trend that we're seeing.

Okay. Thank you. And then relative to the increase that you referenced in the healthcare quote pipeline here in the health care quote pipeline here in October versus a year ago. If you have your normal level of wins coming out of that quoting process, what is the incremental impact on 2025 – excuse me, on 2026, next year?

Simple math would be – it would be closing rate stays the same, it'd be 60% better. But we're not going to give a, you know, 60% better than we did in 2025. And we had a great 2025 and bigger, remember, for the one on one selling season. But we're not going to – I'm not going to – this is a little bit of an uncertain market because of how much these rates are going up for certain carriers. And I'm going to reserve my right to talk about that one at the Q4 call.

Okay. I'll thank you for giving me some words, but without any answers. And let me shift, if I may, as you look at that quote pipeline, that 60% increase. What's the average size of the businesses that you're quoting versus either a year ago or just versus what you typically would end up having in your normal pipeline for new prospects? Essentially, I'm trying to understand if the health insurance is leading to a skewing of size of business one direction or another.

I think it's a good question. I can give it to you and the total, I don't have it for, what's health insurance. But for clients we've brought on this year, they've averaged about two worksite employees greater than what we brought on last year.

And would you please remind us the base.

You got me, Bill. You got to tell the world I don't have my glasses on me, and I can't read this.

It's the fine print that gets us all.

I can tell you, to – I want to say it's, I don't – I can't say. So it's embarrassing for me to say that,

but.

It is what it is. Okay, so here's, just conceptually then, are you seeing either health insurance or anything else that you are providing that is specifically increasing the average size? Or is it truly a combination of all pieces of the puzzle? And then are there any, I guess my follow-on question to that is, are there any other interesting stats that are coming out of your new client this year versus prior years?

I would say, you know, it starts with, you know, having good people that understand how to position BBSI and we put a lot of work into that. It's having good products for them in the position and we put a lot of work into that. It's having referral partners that understand your value prop and are comfortable that you're going to execute and we'll put that in front of you – in front of their clients. And we've really executed on that. So that's kind of the three prongs.

But in general, right, you know, our tech is better. Our products, we have benefits. There's a lot of things we've been working on that lean to a larger client. So it's not just one thing. It's the combination of all those things.

And bottom line, if your WSE is from existing clients word has to stay flat. It sounds like you would be anticipating an increasing rate of growth from your new client adds both because the number of new client adds would be increasing, but also the number of WSEs per account would be higher.

Yeah. I would say the – it's not so much as the reason we're growing is because we're adding larger clients like the two on the average doesn't really skew it that much. It's really the velocity that we're bringing on clients, and I don't see that velocity slowing down.

Great. Thank you. Appreciate you taking the time and have fun at the eye doctor.

There are no further questions at this time. I will now turn the call over to Mr. Gary Kramer. Please continue, sir.

I just want to take the time to thank all of BBSI for a great quarter and keep doing what you're doing everybody. Appreciate your hard work. Thank you, everybody.

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.