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TrueBlue, Inc. (TBI)

Q1 2017 Earnings Call

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Mark S. Marcon
Analyst, Robert W. Baird & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Kelly, and I'll be your conference operator today. At this time, I would like to welcome everyone to the TrueBlue First Quarter 2017 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.

Derrek Gafford, CFO of TrueBlue, you may begin your conference.

Derrek L. Gafford
Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

Good afternoon, everyone, and welcome to today's call. I'm here with our CEO, Steve Cooper.

Before we begin, I want to remind everyone that today's earnings call and slide presentation will contain several 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 several non-GAAP measures when presenting our financial results. Please refer to the non-GAAP reconciliations on our website at www.trueblue.com under the Investor Relations section. Also, any comparisons made today are based on a comparison to the same period in the prior year, unless otherwise stated.

Throughout fiscal year 2016, we provided organic revenue trends to enhance the transparency of our results due to recent acquisitions. Since all of our acquisitions have been owned for at least a full 12 months starting in 2017, total revenue and organic revenue trends are now the same.

However, due to the reduction in the use of our services by Amazon that was announced in 2016, we will continue to provide year-over-year growth numbers excluding this customer. We believe these results are helpful in understanding the underlying trends in our business.

One last point before I turn the call over to Steve. For quarters other than year-end, we moved our expected earnings release date to the fifth Monday following the end of the fiscal quarter, which matches the expected filing date of our 10-Q. We believe this practice is more convenient for investors and will help the market better understand our results. Our year-end earnings release date is expected to remain consistent with the past practice of occurring on the sixth Wednesday following the end of the fiscal year.

I'll now turn the call over to Steve.

Steven C. Cooper

Chief Executive Officer & Director, TrueBlue, Inc.

Thank you, Derrek. Good afternoon, everyone.

Our quarterly revenue was right in line with the midpoint of our outlook, while net income, adjusted net income and adjusted EBITDA exceeded the high end of the range as we provided earlier. Total revenue was down 12% or a decrease of 3% excluding Amazon. PeopleScout delivered growth as did PeopleManagement on an ex-Amazon basis with PeopleReady down 7%.

Our team executed well this quarter, delivering adjusted EBITDA of $18 million. Our adjusted EBITDA margin was 50 basis points ahead of our high-end expectation due to the discipline in our pricing of our bill rate and our cost management practices.

I'm especially pleased with the team's focus on gross margins. During the quarter, we experienced significant pay rate growth, driven by both statutory and market increases across many local jurisdictions. Gross margin was up 120 basis points as a result of these practices, as well as favorable revenue mix.

We also continue to run the business more efficiently. Operating expense in the first quarter was down by $9 million due to a variety of cost-control measures concentrated on non-revenue-generating activities.

We are off to a strong start this year in how we price our business and manage expenses, which sets us up well for a strong operating leverage as our revenue trends continue to improve. The growing breadth of our workforce solutions increasingly positions us to meet the needs of businesses as they adapt to a constantly changing business environment.

I'm going to spend a little time now updating you on where we sit with our workforce solutions and where we are focusing from a strategic perspective.

In Q4 2016, we began operating and reporting in three distinct segments: PeopleReady, PeopleManagement and PeopleScout. This move to simplify our service options and clarify our branding structure ensures that our various segments work together effectively as we provide businesses with the right people for contingent work, for permanent positions or in combination to form a total workforce solution. We're excited about the additional actions we're taking in each of our businesses to drive future growth. I'd like to spend a minute on each.

Starting with PeopleReady. Our transition to this single specialized staffing brand simplifies our positioning in front of the customer and the job seeker, increases our agility in the marketplace and is an important step that will bring our full range of services to more markets. This is something we have been working on for a few years, and the last step was to complete the movement of our former brands, Labor Ready, CLP and Spartan Staffing, under the same set of information systems.

The system conversion started in Q4 of 2016 and was completed in Q1 2017 as planned. With the heavy lifting of this transition behind us, our team can now dedicate 100% of their time to sales, recruiting and servicing activities.

The early reaction from our customers has been positive, as they appreciate the simplicity and ease of having one trusted partner for all of their on-demand contingent staffing needs. Our branch network staff was excited to have more services to offer and the united brand in all of our markets.

Another important initiative at PeopleReady is the introduction of JobStack, a mobile app that efficiently connects workers with available jobs. We're bringing technology right to our workers' smartphones, allowing them to choose jobs from a complete electronic stack of options, all tailored to their skills and qualifications.

On the other side of the equation, we're bringing technology straight to our customer to ensure they not only have more workers available but can place an order 24/7 and immediately see when a worker accepts the job. At the same time, our branch network teams can make more efficient use of their time with more focus on growth opportunities such as recruiting and selling.

In summary, JobStack is an entirely new approach to doing business. We expect it will increase fill rates, boost our client wallet share and increase our win rates on new proposals. Even more powerful is our ability to recruit a more gig-oriented employee, which is the perfect candidate for a variety of service-based businesses. Not only will the technology increase the pool of employees we have available, but a larger pool of gig-oriented employees will allow us to effectively sell into more service-based businesses.

There are two key objectives for JobStack in 2017. First is to successfully deploy the technology, which is on track. Second is to acclimate our branches to the power of this technology and help them adapt their daily procedures. We have some branches that have been using a variety of mobile dispatch techniques and are very ready for this technology. We also have some branches that are accustomed to face-to-face interactions with employees on a daily basis, and our job is to help them adapt their methods to be more suited to a digitally oriented business model. As our business adapts and learns how to harness this technology in 2017, this should set us up nicely to build value outside of our current operations in 2018.

Turning to PeopleManagement. We're encouraged by our prospects for growth and margin expansion, particularly as we leverage our portfolio of differentiated products that offer compelling client value and carry a higher margin. Let me touch on two areas of focus.

First, we acquired SIMOS Insourcing Solutions at the end of 2015, and we're working to fully leverage its unique productivity solutions across our existing workforce management platform. We're already achieving further penetration with our high-margin SIMOS solutions that help customers become more efficient and reduce labor cost by using a per piece rather than hourly pricing model. Our SIMOS brand helps clients save more than 15% on their per unit labor cost while, at the same time, improve our own operating margins.

Second, e-commerce is a positive secular force that tends to be more labor-intensive in the fulfillment centers. Online sales continue to expand, resulting in the well-publicized challenges for the conventional bricks-and-mortar retailers. We provide the ability to recruit and manage workforces of hundreds or even thousands of employees, and we supply the drivers and logistic specialists needed to distribute goods. Indeed, the fastest-growing segment within e-commerce is the smaller retailers with only $25 million to $100 million in annual sales, which is one of our core strengths.

Finally, I'd like to touch on the exciting opportunities for PeopleScout to further penetrate the global RPO market that is currently experiencing double-digit growth. The European and Asian markets are rapidly developing and, at the same time, we see international corporations increasingly seeking a provider that can handle all their needs. By partnering with TrueBlue to outsource their full-time recruiting functions, companies around the globe can reduce costs by becoming more scalable and flexible, and they can gain better insight into sourcing and recruiting best practices and technology.

In addition to the growth opportunities in our existing footprint, we are also focused on expanding our international footprint. This will help us showcase our presence in key markets and increase our win rates on global deals, as global businesses seek to reduce the number of providers they use.

With higher industry growth rates than our other businesses and an adjusted EBITDA margin of nearly four times the company average, we expect PeopleScout will continue to have a positive impact on our long-term adjusted EBITDA margin.

With that, I'll turn the call over to Derrek for a further analysis of our results, after which we will open up the call for your questions. Derrek?

Derrek L. Gafford

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

Thank you, Steve. I'll begin my comments by reviewing our overall results followed by a more in-depth discussion, including a look at each of our segments. I'll finish up with an update on our liquidity position and our outlook for the second quarter.

Adjusted EBITDA of $18 million exceeded our $12 million to $15 million expectation. We achieved the higher gross margin through strong execution in the pricing of our services, and we also continue to aggressively manage costs, resulting in lower operating expenses.

Adjusted earnings per share of $0.21 exceeded the high end of our $0.09 to $0.14 expectation for the reasons previously mentioned, plus two additional items. Depreciation was lower than expected from a timing delay in putting certain assets into service, and interest expense was lower due to additional progress in reducing debt.

Revenue for the quarter of $568 million was right at the midpoint of our $560 million to $575 million expectation, representing a decline of 12%. Revenue from Amazon was $10 million versus $68 million in the same quarter a year ago. Excluding Amazon, revenue was down 3%.

Now let's shift to a discussion of the underlying trends behind these revenue results. Excluding Amazon, revenue was down 2% in January, 4% in February, and 5% in March. We took a very disciplined approach in our annual bill rate pricing this quarter, which constrained our revenue trends. I'll provide more color on this in a moment.

From an industry vertical perspective, results were mixed. Growth rates in manufacturing and service-based industries were down about 5% and 10%, representing decelerations from the fourth quarter. Retail excluding

Amazon was up about 10%, and construction was up about 5%, representing accelerations from the fourth quarter.

Gross margin of 24.5% was up 120 basis points as a result of favorable mix associated with less revenue from Amazon, which carries a lower gross margin than the blended average, a continued focus on disciplined pricing of our staffing services, and additional efficiency gains in the sourcing and recruiting activities within our RPO business.

Wage growth has accelerated in our PeopleReady business from various minimum wage increases, which are more concentrated at the beginning of the year. We have increased our bill rates for these higher wages and associated payroll burdens, as well as our traditional markup. This is a nice start for us this year compared to last year.

PeopleReady gross margin was up 20 basis points in Q1 2017 versus down 90 basis points in Q1 2016. While we believe our pricing strategy is the right long-term decision, these actions do impact our revenue trends in the short term as businesses make their own pricing and productivity-related adjustments.

Operating expense was down $9 million, with $1 million of benefit from no integration expense during the quarter and $8 million of benefit from reductions in a variety of non-revenue-generating activities across the business.

Adjusted EBITDA was down about $3.5 million or 17% due to $4 million less in EBITDA from Amazon. Despite the drop in revenue and the associated deleveraging of the operating expense base, pricing discipline and cost management actions limited the drop in adjusted EBITDA margin to 20 basis points. Excluding Amazon, adjusted EBITDA margin was up 20 basis points. Our effective income tax rate was 28% for the quarter, in line with our expectation.

Turning to results by segment. PeopleReady revenue was down 7% and adjusted EBITDA was down 17%. PeopleManagement revenue was down 22% or up 2% excluding Amazon. Adjusted EBITDA was down 13% but more than doubled on an ex-Amazon basis. Adjusted EBITDA margin expanded by 30 basis points from disciplined pricing and successful cost management practices. Excluding Amazon, adjusted EBITDA margin expanded by 170 basis points.

PeopleScout revenue was up 1% from the net effect of new customer growth offset by a decline in same-customer revenue. Adjusted EBITDA was up 8%.

The strength of our balance sheet and liquidity continues to improve. During the first quarter, the company produced cash flow from operations of $54 million. Total debt stood at $80 million at the end of the first quarter, down about $60 million from the fourth quarter last year, resulting in a debt-to-capital ratio of 13% versus 21% in the fourth quarter of 2016. Our adjusted EBITDA-to-total debt ratio stood at 0.6 times.

Turning to our outlook for the second quarter of 2017, we expect a decrease in revenue of 8% to 11%. Excluding Amazon, we expect a revenue decrease of 4% to 6%. Our second quarter outlook for net income per share is $0.29 to $0.34, or $0.38 to $0.43 on an adjusted net income basis, assuming a share count of 42 million. Adjusted EBITDA is expected to be $29 million to $32 million.

We believe we are well-positioned for future growth. A significant portion of the Amazon revenue headwind is behind us now. And since all of the adjusted EBITDA from this account was earned in Q1 last year, we are now past the profit headwind.

While our bill rate pricing strategy has a negating impact on our immediate revenue trends, we believe this will moderate as customers make their own pricing and productivity adjustments. With a growing revenue base, our successful gross margin and cost management actions provide the potential for strong operating leverage in the future.

That concludes our prepared remarks for today. We can now open the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Kevin McVeigh from Deutsche Bank. Your line is open.

Kevin McVeigh
Analyst, Deutsche Bank Securities, Inc.

Q

Hey, congratulations on the results. Hey, Derrek, I wonder – can you give us a sense how much the kind of intended pricing actions impacted the revenue? I mean, nice job on the revenue. Is there any way to think about – because it looks like the revenue organically is still decelerating, and my sense is that it's probably because of disciplined pricing. But is there any way to kind of ring-fence that?

Derrek L. Gafford
Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

A

Yeah, thanks. I appreciate the question. That is a difficult one for us to ring-fence. What we can speak to is what we have seen in this when we have passed through minimum wages in the past, and this is particularly more true for areas where these are – we have higher minimum wage increases.

We put through the increase, we passed through the costs the related burdens and put the mark-up on top of it. That's more going towards new business that is coming in that we're pricing, and we see a drop-off from that during the second, third months and even into the second quarter following those increases, with recovery starting to happen generally towards the back half or the second quarter, the increase, and consistently improving afterwards. So, a tough one for us to ring-fence.

Also, what's probably a little bit more unique this year is the amount of minimum wage increases that we have put through. They have been larger than last year. We're talking roughly about $15 million of minimum wage increases this year compared to about $10 million last year, which is a bit more significant in the average bill rate increase that's needed.

So those are a couple pieces of color commentary that are helpful, pretty helpful, Kevin, but hard to ring-fence an exact estimate of that.

Kevin McVeigh
Analyst, Deutsche Bank Securities, Inc.

Q

Understood. And then, just you saw a real nice tick up in the retail, it looks like, kind of ex-Amazon. Any kind of particular areas of strength you'd call out there?

Derrek L. Gafford
Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

A

Well, what our teams have been doing is continuing to focus on retail, not just bricks and mortar, but in the e-commerce space. So, we've built up some capabilities there in the past, and that's an area where we continue to focus.

And not just in the large accounts. Well, when we talk about an e-commerce business model, what might ring true to most folks is they'll remember it through the Amazon and the size of that account, the fastest-growing segment here in e-commerce are actually customers that are under $200 million of revenue. So, that's a nice place for us to play or really across both of our staffing businesses, the branch-based business, PeopleReady, as well as the on-premise business in our PeopleManagement group.

Kevin McVeigh
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. And then, just as kind of the minimum wage in Amazon, I mean, do you feel like – because it sounds like some of your peers like early March has been an inflection point in terms of fundamentals. Is that a fair way to think about kind of current fundamentals?

Derrek L. Gafford
Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

A

Well, that's what we've seen at least in our trends. We all saw the GDP report that came out for the first quarter. So it's tough to tell how much of this is related to softer GDP trends and how much of this is around pricing strategy, but no doubt, both of these weigh into our trends here.

The GDP report, while in its raw number of 0.7% is disappointing, the nice part about this that there's a brighter side is that there was actually growth in business investment. So, 40% of that 0.7% of growth came from business investment.

That's a different trend than what we saw in 2016. 2016 GDP was powered exclusively by consumer spending. As you all know, we're a business-to-business company. So, to the degree that the remainder of the year rallies, I'm talking from a GDP perspective, which seems to be the trend during this economic expansion cycle, slow first quarter, rally in the back half of the year, and that that growth is coming from – we get some growth from business investment spending there, that could do well for us.

Kevin McVeigh
Analyst, Deutsche Bank Securities, Inc.

Q

Super. Thank you.

Operator: Your next question comes from Jim (sic) [Jeff] (24:49) Silber from BMO. Your line is open.

Henry Sou Chien
Analyst, BMO Capital Markets (United States)

Q

Hey, guys. It's Henry Chien calling for Jeff.

Steven C. Cooper
Chief Executive Officer & Director, TrueBlue, Inc.

A

Hi, Henry. How are you doing?

Henry Sou Chien
Analyst, BMO Capital Markets (United States)

Q

Hey, I'm good. Thanks. Just a question on the bill rate increases. I'm just curious, is that more of a onetime just this last quarter where you put in the price increases, or has it been more of a shift in bill strategy or the type of clients that you're [audio gap] (25:16) Just overall, just curious on more of a strategy perspective.

Steven C. Cooper
Chief Executive Officer & Director, TrueBlue, Inc.

A

Yeah, it's similar to previous years. So, there's statutory increases each year. There's also pressure because it's getting harder and harder to find people, so that's putting wage pressure on. And we do a major reset at the beginning of each year. So, we look at a forecast of what – especially what the statutory impact is going to be. And it's easier for us to make an estimate at that point in time.

So, it's something we do in preparation before the first quarter starts. And really on our side, no process changed this year, where we're putting the bill rate increases in and how we go about it, the difference was we decided not to give up any ground especially in this environment where it's harder to find people, that we just felt like we wanted to go out a little harder this year and put the bill rate increases through faster.

So, we've just saved ourselves a few months. But as Derrek mentioned, it sets the stage well when there is a pickup in demand. And because that now your fundamentals are in order and now you've just got to go fill orders.

So, we like where we sit, although it's easy to see by comparing where the largest bill rate or pay rate increases went in, that's where sales are struggling the most. Although we can't put an exact dollar amount on how much the sales are struggling because of the bill rate increases, it's easy to see the correlation for us.

Henry Sou Chien
Analyst, BMO Capital Markets (United States)

Q

Got it. Okay. That makes sense. And just in terms of color on end market demand, I know you mentioned construction saw an acceleration. Any color you can provide on some of your end market segments, how they performed through the quarter, was there any acceleration or improvement in manufacturing and service space or...

Derrek L. Gafford
Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

A

Well, not much more than what I talked about in the prepared comments. So, just to kind of recap here really what we're talking about, we did see some acceleration in construction. I'd call it mid-single-digit growth from relatively flat in the fourth quarter. We saw a pickup in retail excluding Amazon to roughly 10%. That's a pickup of 4 or 5 points from where we finished from a growth perspective in Q4. Did see some softening in manufacturing. Manufacturing down on about – call it about 5%, a slight deceleration from lower single-digit decline in the fourth quarter. And then services coming in at about a 10% decline and also a deceleration from the trend that we had in the fourth quarter.

So, I think you take all of those, it's just kind of a mixed bag really largely offsetting, which kind of bring us in on an ex-Amazon basis from a revenue perspective overall for the company, pretty much the same as what we reported in the fourth quarter just from some different areas of vertical segments.

Henry Sou Chien
Analyst, BMO Capital Markets (United States)

Q

Got it. Okay. Thanks for the color.

Operator: Your next question comes from John Healy from Northcoast Research. Your line is open.

John Healy
Analyst, Northcoast Research Partners LLC

Q

Thank you. I wanted to ask question about the JobStack app. When I think about it, can you give us some more color about the timeline in terms of rollout? I think about the fast side of the field staff and then the talent and the client, how do you kind of go about kind of pacing the rollout of it? And from a talent versus a client standpoint, what side is the emphasis to kind of get it ramped up for a kind of introduction?

Steven C. Cooper
Chief Executive Officer & Director, TrueBlue, Inc.

A

Yeah. Thank you, John, for that question. It's such a new business model for us to get into this digital market like this. We had to make a decision of whether to get this ramped up on its own or should we use the bricks and mortar, the legacy business that we have at PeopleReady to push this.

We decided that the strength of our businesses that we do have of 125,000 active accounts and serves close to 0.5 million workers last year, and what a better platform then to ramp this up through that existing operation, yet no one to hold it back.

So, as we mentioned, the real goal for 2017 is ensuring that the technology is working with the culture. We know that the technology itself is doing well, but we've got to get it ramped up throughout our culture. So, we have a couple of small goals we're trying to hit early in 2017, and that is the adaption rate of our workforce, how fast they grab it, download the app and are willing to select jobs off of it, and then actually how many jobs get serviced directly through the app.

And those branches that have really gleaned onto this, grabbed it and are executing well quickly can get half or more of the workforce using this app quickly. And it doesn't take long and most of those people, those half, are being dispatched on it.

So, we know that it works well, we know that it can ramp up, but the question that you've asked is it going to be harder to find workers or jobs because it's – we have some test markets now that we're actually using banner ads on social media to pull in a new type of candidate job seeker that might not have been willing to go to our bricks-and-mortar location, but they're very apt and ready to download this app and connect with us and be ready to go to work.

But that one said, that takes a different job. As Derrek mentioned earlier, hospitality jobs, services jobs really tend to be where those gig-type job seekers are wanting to go to work. So there's a balance of advertising and pushing the sales force into these new job types where we can really pull the job seekers from the applicants to fill them.

So, it's going to be a dance this year for us to do this and do it right, while we don't walk away from those hard-to-fill jobs that we're good at in the beginning. So we're not really promising for 2017, but we are going as quickly as we can, so we know that we're getting all we can out of this opportunity that we feel like we're the leader in right now.

John Healy
Analyst, Northcoast Research Partners LLC

Q

Okay. No, that's incredibly helpful. I guess along the same lines, what do you think about those types of, you called it gigs or those types of assignments? If I was a customer – or if I was an employer and wanted to have you help me with that, would that be better or worse gross margin than kind of what you're seeing today? What you're seeing in the Labor Ready brand – the PeopleReady brand historically and as we've been thinking about how the customer would pay for that?

Steven C. Cooper
Chief Executive Officer & Director, TrueBlue, Inc.

A

Right. Yeah. Well, obviously, we don't have all the experience that we need but the little bit that we do, customers are so excited about this, they're willing to pay more. Because they can actually see the live auction going on. And what that really means is we can stand there with the customer and show them the app and post their job, and very quickly, the customer can be looking at that app and seen how long it takes and who might be scanning through their positions. And if no one's jumping on that job, let's say, you add $0.50 to it, they can see how fast job seekers, applicants, our workforce will select the job, and it amazes the customer every time to watch that live auction take place in front of them.

And so, we've seen more customers willing to up their bill rate because they really can see what wage is necessary to attract the employees in, and customers like that. Sometimes they don't believe you if you're just telling the story, but you're standing there in front of more data and it works.

John Healy
Analyst, Northcoast Research Partners LLC

Q

No, that's helpful. Thank you.

Operator: Your last question comes from Mark Marcon from RW Baird. Your line is open.

Mark S. Marcon
Analyst, Robert W. Baird & Co., Inc.

Q

All right. Good afternoon, Steve and Derrek.

Steven C. Cooper
Chief Executive Officer & Director, TrueBlue, Inc.

A

Hey, Mark.

Mark S. Marcon
Analyst, Robert W. Baird & Co., Inc.

Q

Can you talk a little bit more about the results that you're seeing in the branches where you do have JobStack where it's been accepted, just in terms of are you seeing a high – a decent level of growth there, or what are you seeing in those types of branches?

Steven C. Cooper
Chief Executive Officer & Director, TrueBlue, Inc.

A

Well, it's just still too early to draw any conclusions about trends and such. There is a quite a cultural change that takes place. I just told the story about the customer, and there's not much cultural change necessary because they're just trying to get their position still when they get excited, so that's the good news.

The workforce is liking it. That culture is – they're in adopt. What we don't know and where the real power of this what we believe will come is this app actually does the match and the dispatch to that job with all the instructions necessary. And so, it saves some steps that the branch staff would have had to have taken.

Moving that available time now in the branch into selling and recruiting, whatever the hardest spot is, is hard to measure until we get some more traction under us, Mark. I think it's going to take another three months for us to really know.

And then I'll just throw another caveat on there. With everything else we've talked about bill rate, pay rate increases and the markets moving, it's hard for us to filter out exactly what's causing that. But it's a great question. We intend to have answers on it. It's just too early.

Derrek L. Gafford
Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

A

What we really deployed so far here, Mark, are – and think about this app really in two different categories. One is centered really around the worker, making it more convenient for the worker to find work, improving our ability to match, at least algorithmically in a digital way, workers to work, which we think will improve the quality of the individual that we're putting out. And then keep in mind that this also allows us to get these jobs filled around the clock, particularly shorter-duration jobs, what we call more emergency orders, those types of things.

The other part of the app is the customer app. I mean, this is all one app. I'm just breaking it into two pieces here. This is where the customer will interface in with this technology to put in job orders, to get visibility and to seeing who's accepting these orders and so on.

So, really to see the full lift here and get an idea of the value this will create, we have to get both of those pieces out. We're still on the worker side.

However, what I will say is that while it's still limited number of branches and it's kind of volatile until we get a bigger population on really knowing the trajectory and the value that is being created, two areas that we are seeing improvements are, is we are seeing improvements in the fill rate because, again, we can dispatch these after hours, we can get a quicker match. And we are seeing some increase in the number of candidates as far as the number of applications that are being charted in the branches where this is being used highly. So again, kind of back to our kind of thesis on this is that it will recruit and provide to be an attractive method for a different class of worker. Early on results are showing some lift in both of those categories.

Mark S. Marcon
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Can you talk a little bit about the monthly trends, just in terms of, like, which industries are you seeing the greatest amount of pressure in and the greatest reduction in demand due to the increase in the bill rates?

Derrek L. Gafford
Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

A

Yeah. This is really what we're talking about here predominantly. This is really in our PeopleReady business. This is a business where 40% of the revenue has to be resold every year. So, as we are making pricing adjustments, the revenue trends are felt more real time here. And so, the pressure on the monthly trends, it's coming from the PeopleReady business predominantly. I would say that it is less geared towards anything from an industry vertical perspective, but more by the size of the bill rate increase.

So, as we break the bill rate increase down into different increments from an average bill rate increase compared to last year and look at our growth trends, you can clearly see more pressure on those high bill rate areas, and that's probably the most relevant discussion topic there.

Mark S. Marcon
Analyst, Robert W. Baird & Co., Inc.

Q

Got it. And so what was the overall bill rate increase? And then in some geographies like California, what did you end up seeing?

Derrek L. Gafford
Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

A

Yeah. So, the overall dollar amount of the bill rate increase for this year for minimum wage is a little bit north of $15 million, and 90% of that increase has went into effect here in the first quarter.

From a California perspective, of that increase of $15 plus million, roughly about $4 million to $5 million of that is coming from California. And most of that is occurring at the beginning of this year.

While it's easier for us to talk about this from a state perspective, this also includes a variety of different counties, cities, different municipalities across the country. But that I, from a city perspective, something that California is very active in and has been in addition to the state increases.

Mark S. Marcon
Analyst, Robert W. Baird & Co., Inc.

Q

So, Derrek, when we take a look at the guidance for the second quarter, factoring in the monthly trends that you were citing, it doesn't sound like you're anticipating that, at least within PeopleReady, there's going to be much of a turn anytime soon. Is that a correct assumption?

Derrek L. Gafford
Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

A

Well, where we – basically what our guidance is for the second quarter on an ex-Amazon basis, Mark, is the guidance there for the quarter is very similar to what our exit rate was coming out of the first quarter. I think that type of guidance, I think that's prudent for us. I certainly think that there's much – there's opportunity for these trends to reverse themselves, and that's what our historical experience has shown it to be.

But as of right now, really, our guidance is set based up where we've exited the second quarter and then just adjusted those revenue dollars based on what our normal seasonal trend is in that business and that's factored in.

Mark S. Marcon
Analyst, Robert W. Baird & Co., Inc.

Q

Okay, great. And then, can you just talk about what you ended up seeing in terms of workers' comp and if there were any accrual adjustments in the gross margin?

Derrek L. Gafford
Executive Vice President & Chief Financial Officer, TrueBlue, Inc.

A

Yeah, workers' compensation was 3.5% of revenue. There was 50 basis points of benefit from reserves related to prior years coming down. Both the net number that I gave you and that reversal of prior-year reserves, as well as the overall work comp percent is very consistent with what it was in Q1 of last year.

Mark S. Marcon
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thank you.

Operator: Thank you. And that does conclude our Q&A session today.

Steven C. Cooper
Chief Executive Officer & Director, TrueBlue, Inc.

Thank you. We appreciate taking time with us today and for your questions that you've given. And you have a great day.

Operator: That concludes today's conference call. You may now disconnect.