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TrueBlue, Inc. (TBI)

Q3 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Rob, and I will be your conference operator today. At this time, I would like to welcome everyone to the TrueBlue Q3 2017 Earnings Conference Call. [Operator Instructions] Thank you. Mr. Derrek Gafford, Chief Financial Officer, 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 Chief Executive Officer, Steve Cooper; and our Chief Operating Officer, Patrick Beharelle who also leads our Mobile Strategy. Steve will provide a summary of our results and business strategies and Patrick will discuss the operational elements of our mobile strategy. I'll finish off with further discussion on our results, trends, and outlook for the fourth quarter and then open the call for questions.

Before we begin, I want to remind everyone that today's call and slide presentation 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 in today's earnings release and on our website at trueblue.com under the Investor Relations section. Also, any comparisons made today are based on the comparison to the same period in the prior year, unless otherwise stated.

Due to the reduction in the use of our services by Amazon, which was announced in 2016, we will continue to provide certain year-over-year comparisons, excluding this customer. We believe these comparisons are helpful in understanding the underlying trends in our business.

I'll now turn the call over to Steve.

Steven C. Cooper

Chief Executive Officer & Director, TrueBlue, Inc.

Thank you, Derrek, and good afternoon everyone. Revenue and adjusted EPS for the third quarter were both at the high end of our expectation. Total revenue for the quarter declined 5% or down 2%, excluding Amazon. We saw encouraging revenue improvement this quarter. We exited the quarter with a year-over-year growth rate of negative 3% for September, an improvement over the negative 9% exit rate for Q2 this year.

The improving monthly results were due to better underlying trends across all of our segments. I want to take a moment to acknowledge the personal impact the recent hurricanes have had on us here at TrueBlue. Several hundred of our employees and thousands of our associates were impacted across Texas, Florida, and Puerto Rico. All are safe and their ongoing safety will remain our number one priority.

I couldn't be prouder of the preparation, the dedication of our employees have exhibited throughout. TrueBlue teams started preparing internally even before the storms hit. Bundling pallets of supplies with satellite phones, generators, pay cards, water and employee care packages.

In the wake of the storms, we've been leveraging existing client relationships and using resources like our mobile technology and recruiting vans to ramp up recruiting efforts and deliver much-needed workers. This is the work we do every day, but it's especially gratifying to be there when the communities we serve need us most. Overall, the hurricanes did have a modest positive impact on our top-line results, providing a 1% lift to total revenue.

Turning to profitability, our third quarter gross margin of 26% was 40 basis points higher than Q3 last year. This was the seventh consecutive quarter of year-over-year gross margin improvement. It's important for us to balance the discipline of pricing in the current rising wage environment with our desire to stay competitive.

Our primary long-term focus is still centered on EBITDA margin expansion through disciplined pricing, smart cost management, and operating leverage associated with our higher organic revenue and a focus on driving our higher margin services.

Now, I'm going to update you on our strategic initiatives and financial performance by segment. PeopleReady is our largest segment, representing approximately 60% of total company revenue over the last four quarters and 56% of adjusted segment EBITDA and we're especially pleased with its improving top-line trends. PeopleReady's local relationships and national footprint, our branch locations helps clients find contingent industrial labor quickly and efficiently.

Over the past year, we completed the transition to a single specialized staffing brand, which makes PeopleReady offerings simpler and more transparent for both the customer and the job seeker.

Revenue trends have been down this year as we've grappled with a low growth macro environment, as well as temporary disruptions from operational changes related to the brand transition. The good news is the business is adjusting to the transition and the monthly trends improved considerably to a decline of 1% in September compared to a decline of 9% in June. I'm very excited about the future for this segment, especially since PeopleReady is just beginning to leverage our mobile strategy, which we will speak to here in a moment.

PeopleManagement, representing approximately 33% of total company revenue over the last four quarters, and 20% of adjusted segment EBITDA, offers on-site workforce management and productivity solutions such as cost per unit pricing through our Staff Management and SIMOS brands. We serve Amazon out of this segment and while that client has scaled back, the business held steady in the third quarter on an ex-Amazon basis.

Our first area of strategic focus for PeopleManagement is growing our workforce productivity solutions that carry a strong value proposition and a higher margin. For example, SIMOS, our highest EBITDA margin business within PeopleManagement, helps customers become more efficient and reduce labor costs by using cost per unit pricing rather than traditional hourly bill rate pricing, helping customers reduce their labor spend by 15% or more.

The second area of strategic focus for PeopleManagement is the e-commerce vertical. E-commerce continues to show strong growth making the retail supply chains' labor needs more volatile and increasing the demand for TrueBlue's ability to deliver a flexible, fully sourced, and managed workforce.

PeopleScout represents approximately 7% of total company revenue over the last four quarters and 24% of adjusted segment EBITDA. This segment primarily provides recruitment process outsourcing services, also known as RPO, as well as managed service provider services or MSP.

RPO and MSP are 87% and 13% of PeopleScout revenues respectively. Both services make it easy for companies to hire efficiently, improve the quality of hire and retention, reduce costs, stay competitive and improve visibility into their overall workforce spend.

PeopleScout is performing very well with 10% revenue growth in Q3. At PeopleScout, we leverage proprietary technology to provide a compelling value proposition for our clients in building their own teams. And this segment continues to generate our highest EBITDA margins.

PeopleScout was recently recognized by the Everest Group as the largest RPO provider globally in terms of the number of annual people hired. PeopleScout was also recognized as a major contender in the Asia-Pacific region with our fast-growing presence there. PeopleScout was also recently recognized by HRO Today Magazine in their independent customer satisfaction survey as one of the top enterprise RPO leaders and even more exciting is number three among healthcare RPO providers. This is the first year that PeopleScout has been ranked on the HRO Today's top list for healthcare RPO providers.

We are thrilled to have our growth and world-class service delivery for healthcare clients recognized. As we plan for 2018, we are focused on initiatives to enable PeopleScout to continue to increase our market share in this high growth RPO segment.

We are proud of the three service segments TrueBlue operates: PeopleReady, PeopleManagement, and PeopleScout and look forward to continue growth opportunities as businesses continue to turn to partners like TrueBlue to help manage their workforce needs.

Today, we announced a $100 million share buyback authorization. With our growth strategies increasingly focused on organic growth, we expect more cash available to return to shareholders and intend to do that through strong share repurchase programs. We're committed to driving higher shareholder returns through strong organic revenue growth strategies along with the strong share repurchase programs announced here.

Next, I'd like to provide a high-level overview of the four important organic growth strategies. First, earlier this year, we realigned our business around three distinct segments that I discussed here with you today: PeopleReady, PeopleManagement, and PeopleScout. By simplifying our service offerings and clarifying our branding structure, we also laid the groundwork for an expanded cross-selling effort. These efforts are now well underway.

We're sharpening our focus on strategic accounts, developing comprehensive account plans, and building institutional capacity to ingrain cross-selling as part of the TrueBlue culture. We expect this will be a very significant opportunity and the good news is only starting just given that fewer than 20% of our top 100 clients are currently engaged with multiple TrueBlue service offerings. We expect we'll be able to leverage this important cross-selling strategy to achieve greater growth throughout the entire organization.

Second is our focus on the RPO space. With an industry growth rate of approximately 15% expected over the next five years and an adjusted EBITDA margin at PeopleScout of approximately 20%, we like our positioning. Our capabilities in full-cycle recruitment process outsourcing and demonstrated ability to successfully handle the largest RPO assignments continue to distinguish us from the competition.

We are the market leader in North America, which is the main focus of our organic growth plan. International acquisitions would complement our growth strategy and accelerate organic growth by increasing our ability to compete on multi-continent deals.

Third is our focus on productivity based solutions such as SIMOS that provide customers with lower labor costs and a fixed per unit cost to help them improve productivity of their workforce.

Our fourth area is our focus on the mobile strategy, which is currently focused on the PeopleReady segment. With our JobStack app, we're creating a next generation digital exchange that efficiently connects workers with available jobs. Two key metrics we're focused on this year are the worker adoption and the mobile fill rates. Adoption rates track what percentage of our active workforce is downloading and using the app. And mobile fill rates track the percentage of orders being filled directly by the digital exchange versus traditional means or unfilled orders.

We've seen steady progress in adoption and mobile fill rates as newly enrolled branches adapt their processes to leverage the power of the app. The first wave of branches we rolled out is now posting worker adoption rates north of 50% and mobile fill rates north of 10%. In other words, in these branches, one out of every 10 available jobs is already being filled through our digital exchange.

We have several branches where over 50% of their available jobs are being matched directly by the digital exchange. JobStack, our real time digital exchange to connect customers with high quality workers, is completing its roll out across North America. Now available across 70% of PeopleReady branch areas, JobStack is accessed through a free mobile app available to registered customers and workers.

Workers from PeopleReady's talent pool can respond immediately to job opportunities posted by PeopleReady customers in the fields and geographic areas, they prefer. And then be dispatched directly to the job site without having to visit a branch. This transformational matching technology enhances PeopleReady's position as one of the largest industrial staffers in the U.S. and as a leader in revolutionizing the way businesses connect with workers.

With that, I'll turn the call over to Patrick who will share some more details.

A. Patrick Beharelle

President & Chief Operating Officer, TrueBlue, Inc.

Thanks Steve. We're very excited about potential of our digital strategy to create value for our workers, for our clients, and for our shareholders. Our JobStack mobile app has the potential to add significant shareholder value by increasing our market share through a larger candidate pool, through around-the-clock dispatch and through compellingly differentiated service in the marketplace. Because our PeopleReady business generates EBITDA margins in excess of 15% on incremental organic revenue growth, we're excited about the potential of JobStack to be an accelerant in the future.

We began the rollout of the JobStack Worker app earlier this year. The worker functionality is now live in approximately 450 branches or about 70% of our overall PeopleReady network. We expect our results to improve as we also press forward with the rollout of our client functionality.

We began piloting the app with clients at the end of the second quarter in 2017 and are receiving positive feedback from those clients. While it's still too early to quantify the potential financial impact, I want to share some early indicators that underscore the value-creation potential.

First, our workers who have downloaded the JobStack app are both more sticky and more active than non-JobStack workers. We've been able to retain and dispatch a substantially higher percentage of workers using the JobStack app compared to workers connected via traditional branch interactions. This is particularly an important development given the tight labor market.

Second, clients who have piloted the app value the additional visibility and quality control. Pilot clients have been very active in providing ratings for workers placed on their jobs. But particularly interesting is that approximately

20% of the clients we've talked with have said they would be willing to pay a premium if their worker pool were comprised entirely of four and five-star workers.

Finally, we're seeing a solid percentage of jobs fills via JobStack outside of business hours. This may not translate directly into volume lift since many of these orders may have otherwise been filled during working hours, but it does underscore the greater efficiency and satisfaction inherent in round the clock job and order fulfillment. Bottom line, we're extremely encouraged by the early success of our mobile strategy and we hope to have even more good news to share in the near future.

And with that, I'll turn the call back to Derrek.

Derrek L. Gafford

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

Thank you, Patrick. For the third quarter of 2017 adjusted EPS of $0.60 was at the high-end of our $0.55 to $0.60 expectation, driven mostly by higher than expected revenue of $661 million, which exceeded the top end of our $645 million – $660 million expectation.

Total revenue for the quarter was down 5%, or down 2%, excluding Amazon, which was an improvement from the second quarter of this year of minus 9% or minus 5%, excluding Amazon. We saw widespread improvement in monthly revenue trends across the business. Between September, which is our Q3 exit rate and June, which is our Q2 exit rate; PeopleReady improved to minus 1% from minus 9%, PeopleManagement to minus 8% from minus 10% and PeopleScout to plus 7% from plus 2%. The recent hurricanes provided about one point of revenue lift for the third quarter, which we expect to carry into the fourth quarter.

From a vertical industry perspective, the retail industry, excluding Amazon and hospitality based businesses, continue to perform well for us with low double-digit growth and we saw improving trends in service-based businesses. Manufacturing continues to be the biggest drag on our growth, down mid-single-digit, which is consistent with the trend in Q2 this year.

Gross margin was up year-over-year for a seventh consecutive quarter and this quarter's results were driven by higher gross margin in our RPO business.

SG&A expense was down about 3 million year-over-year from the absence of prior year integration and reorganization expenses, which was somewhat offset by hurricane related damages and mobilization response costs in the current year.

Turning to the segments, PeopleReady revenue declined by 5% in the third quarter. Excluding the storm-related revenue, September was down 3%, making for a strong finish to the quarter compared to the Q2 exit rate in June this year of minus 9%. Adjusted EBITDA was down 30% as a result of negative operating leverage associated with the revenue decline and the storm-related cost, I mentioned earlier.

PeopleManagement revenue declined by 9% overall or flat growth on an ex-Amazon basis. The new business pipeline is healthy, particularly in the SIMOS business, but converted at a slower than expected pace in Q3 as customers make plans for the upcoming holiday season. Adjusted EBITDA was up 31% and related margin expanded by 110 basis points driven by faster growth in the higher margin SIMOS business and reduced costs in light of lower Amazon volumes.

PeopleScout performed very well with 10% top-line growth. Underlying the growth is a record level of new logo wins. Proprietary technology advances and a trusted reputation in the marketplace continue to differentiate our service offering with new clients. Adjusted EBITDA was up 23% and related margin up 220 basis points from a continued focus on recruiting process efficiency.

Our balance sheet and liquidity continue to strengthen. Year-to-date cash flow from operations was $81 million. Total debt stood at $135 million resulting in a debt-to-capital ratio of 20%. On a 12-month trailing basis, total debt-to-adjusted EBITDA stands at 1.0.

Acquisitions have played a prominent role in our growth strategy. For example, the acquisition of SIMOS added a new higher margin service offering and the Aon RPO acquisition added scale and efficiency to our core business.

We believe RPO clients will increasingly seek providers that can deliver multi-continent service, which is why we are pursuing international deals in this space. They do not need to be large deals, just enough to create a physical presence and provide client references. Aside from this, our strategies are focused on organic growth. As Steve mentioned, today, we announced that our board of directors authorized a new $100 million stock repurchase program.

Cash flow from operations is strong at $129 million over the last 12 months and the balance sheet is in great shape. The new share authorization demonstrates our desire to return more cash to shareholders and our confidence in the long-term outlook of our business.

Year-to-date, we repurchased $29 million of common stock, $14 million of which was purchased during the third quarter, completing the previous authorization, under which a total of $75 million of stock was repurchased at an average price of $15.52.

Turning to our outlook for the fourth quarter of 2017, we expect a decrease in revenue of 8% to 10% or a decrease of 6% to 8%, excluding Amazon. Once the fourth quarter is complete, we will have passed the anniversary of the lower revenue run rate in the Amazon business that was announced in 2016. Our fourth quarter outlook for net income per share is $0.36 to $0.41 or $0.45 to $0.50 on an adjusted basis, which assumes a share count of 40.8 million.

As a reminder, last year's fourth quarter included an extra 14th week and we moved the quarter ending date forward by two days from Friday to Sunday to better align with the work week of our customers. Revenue associated with that nine extra days was $56 million and the estimated EPS contribution for that period was $0.04 or $0.05 on an adjusted basis. On a comparable week basis, our guidance implies a revenue decrease of 1% to 3% or minus 1% to plus 1%, excluding Amazon.

Our business is focused on three simple principles to increase shareholder value. One, increasing organic revenue growth to drive higher adjusted EBITDA margins. With the current focus of our mobile strategy at

PeopleReady, we're excited about the 15% plus incremental adjusted EBITDA margin this segment is capable of producing with organic revenue growth.

Two, aggressively growing services with higher adjusted EBITDA margins. Our RPO and productivity solutions continue to perform well and increase their share of our overall business mix. Three, returning more cash to shareholders through share repurchase to further improve shareholder returns.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Jeff Silber from BMO Capital Markets. Your line is open.

Jeffrey Marc Silber
Analyst, BMO Capital Markets (United States)

Q

Thank you so much and congratulations on the quarter, good results. You mentioned the impact of the hurricane in the third quarter and you expect some potential benefits going forward. Is it possible to quantify that and I'm also curious in past disasters, how long did this cleanup work last?

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

A

Hey, thanks, Jeff. I appreciate that. Storm-based work it's kind of – first it's negative impact because all businesses are shut down during that period of time and then we have a quick impact that's cleanup work and then obviously the next stage is the longer term work that involves more skilled labor. So we're through most of the quick impact that comes from the cleanup in those areas and by the way as mentioned that quick cleanup work isn't always the most profitable work either because of the extra cost it takes for all that additional recruiting. So we like contributing to those communities, we're glad we're there for them to get them rebuilt and cleaned up as fast as possible, but our long-term impact isn't all that great, Jeff. It's something that we do, and we love to do and most of that impact is behind us. However, that last stage is the rebuild and we look to participate and we're pushing hard to get some long-term skilled people out there to help to rebuild in those areas. That one is harder to quantify.

Jeffrey Marc Silber
Analyst, BMO Capital Markets (United States)

Q

And are you – I'm sorry, go ahead.

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

A

I just want to catch the back-end of your question about the impact. So, for the third quarter that was about a point of lift associated with the hurricanes and we've got about the same amount of lift in our guidance for the fourth quarter.

Jeffrey Marc Silber
Analyst, BMO Capital Markets (United States)

Q

Okay. I appreciate that, Derrek. You mentioned in terms of having to find people to do this work. Is it becoming more difficult? Are you getting sort of new type of folks doing this or are you kind of cannibalizing your existing business to find these people to work on these projects?

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

A

Yeah. I don't think it's cannibalizing. There is plenty of workforce out there to go do general labor. That's one of the things through the history of our company that with the methods that we use and where we are and how we recruit, we can round the quantity of people up almost in any environment. So, there is some extra transportation to move people in, because those that are impacted at those areas aren't ready to go back to work quickly, so we need to transport teams in to help with the cleanup.

Jeffrey Marc Silber
Analyst, BMO Capital Markets (United States)

Q

Okay, great. And shifting gears to JobStack, it sounds like you are really making some progress there. I know early on there were some internal issues in terms of getting some of your folks at the branches to adopt it. I am just curious how that's been going, how you've been able to overcome that.

A. Patrick Beharelle
President & Chief Operating Officer, TrueBlue, Inc.

A

Yeah. Thanks for the question, Jeff. This is Patrick. We made a lot of progress there. We've got 450 branches now that are on the app. We've got over 400 clients that we've been working with. We are seeing clients added at a pretty healthy clip. So, I think we've gotten past that largely. It is a pretty significant change effort though, so it shouldn't be underestimated. But, I think we're doing a pretty good job on it now and we're starting to see some pretty significant results in terms of the number of associates that are adopting the number of clients that are adopting, and our internal personnel as well. So, we feel pretty good about where we're at.

Jeffrey Marc Silber
Analyst, BMO Capital Markets (United States)

Q

Okay, great. And then, just a quick numbers question. Derrek, I appreciate the color on the guidance. Is it possible to give us any color in terms of gross margins and adjusted EBITDA that's embedded in your fourth quarter guidance? Thanks.

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

A

Let's see here, Jeff.

Jeffrey Marc Silber
Analyst, BMO Capital Markets (United States)

Q

I can always follow-up offline if you don't have it. Don't worry about it.

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

A

I've got it here. I mean, we're looking for gross margins roughly in alignment with where they were in the fourth quarter of last year, maybe down a little bit. There – as Steve mentioned, there is some transportation costs and some other things here to service some of this hurricane related work. What was your question on adjusted EBITDA though, the...

Jeffrey Marc Silber
Analyst, BMO Capital Markets (United States)

Q

Yeah, the same kind of thing and just in terms of guidance for the fourth quarter.

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

A

We're looking at, I'll call it roughly about $30.5 million to $34.5 million in adjusted EBITDA.

Jeffrey Marc Silber
Analyst, BMO Capital Markets (United States)

Q

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

Operator: Your next question comes from the line of Kevin McVeigh with Deutsche Bank. Your line is open.

Kevin McVeigh
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you so much and let me add my congrats on the quarter. Hey Derrek, you came in at the high – above the high-end of the range, was that kind of the incremental step-up of the hurricane work or any other context around that just as we think about it relative to Q4?

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

A

Yeah, a good portion of the beat was – what pushed us higher was PeopleScout continuing to perform really strong and some lower corporate expenses. The extra revenue beat for the quarter was driven by the hurricane related work that we talked about that provided some extra lift. However, we had some extra SG&A that came along with that revenue. Some of it normal that you would expect incremental, but roughly about $2 million of extra SG&A that came. Half of that roughly related to damage to our branch offices, which won't carry, of course, into Q4 and just some start-up costs; mobilization cost, getting some more recruiting centers and some other things going. So that really leaves you with a beat on the PeopleScout results from a little bit higher in revenue and strong performance on the adjusted EBITDA margin side.

Kevin McVeigh
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Now is that – will some of those costs be insured, Derrek, will you be able to recover them from your carriers?

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

A

No, because most of these are – they are not any big items at any individual branches. Our branches are pretty small and this is largely going to fall underneath the deductibles. So this is out of pocket expense for us.

Kevin McVeigh
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. And then just as we're thinking about the new buyback, any way to think about the cadence of that and how much of that do you have dialed into the Q4 guidance?

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

A

Yeah, thanks for asking that question. I'm glad you did. We don't bake any share repurchase activity – at least future activity into the guidance that we set. From a strategic perspective, on the share buybacks, this is something that, as Steve alluded to in his comments with more of our organic strategies or more of our growth strategies focused on organic business plans. That's going to free up quite a bit of capital for us.

So we plan to be active here in share repurchase every year going forward, albeit, if we have a big acquisition here or even a small one that takes some capital out that might slow down the pace for a bit. And then well, we've always been opportunistic in how we buy it. So not a stated stock price or stated level on a quarterly basis, but we do plan to be active going forward on an annual basis with this, makes some good progress at it.

Kevin McVeigh
Analyst, Deutsche Bank Securities, Inc.

Q

Super. And then just my last one. Any other thoughts on minimum wage increases or anything else that we need to think about as we get into 2018 or what type of progress you're making on some of that kind of margin? I know there have been some compression earlier in the year.

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

A

Yeah, I expect that the pace on the minimum wage side will continue into next year. California has been the biggest presence of this. There will be some continuation of that next year, probably not to the same level that it's been in the past. From a long-term outlook, the increase in the minimum wage we think is incrementally positive for the industry on a longer term basis. As those wages go up, the customers, we feel will look for more and more options to make their workforce more productive and certainly the service offering we've got helps with that.

However, you need a little bit of a break in some of these areas to catch some wins. So if you've got year upon year upon year it's hard to see that translating into additional industry growth because there is some cutback in hours. But, I think we'll see about the same level for next year as far as minimum wage increases that we saw this year and I think our teams are well prepared to handle that. We started this process in August and continue it to the rest of the year. So we'll be in good shape.

Kevin McVeigh
Analyst, Deutsche Bank Securities, Inc.

Q

Awesome. Thank you very much.

Operator: [Operator Instructions] Your next question comes from the line of Mark Marcon from R. W. Baird. Your line is open.

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

Good afternoon. I was wondering if you could just breakdown PeopleReady, PeopleManagement, and PeopleScout in terms of the growth on a comparable basis. I think I can see what it is, but I just wanted to confirm how it comes out and then I've got some follow-ups.

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

Yeah. You're talking about the guidance that we've set Mark for the fourth quarter?

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

Right. So, for example, total is minus 1% to minus 3% on a comparable period basis, so I'm assuming PeopleReady is minus 2% to minus 4% on a comparable basis, but I just wanted to confirm that; same with PeopleManagement and PeopleScout.

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

Sure. So what I'm going to do here is I'm just going to give a complete story of the guidance starting at the total consolidated level just so everybody's got it and then I'm going to back in and finish off with the question that you asked here, Mark.

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

Great.

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

So, on a GAAP basis, total company, we're looking at a decline for the fourth quarter in our outlook of minus 8% to minus 10%. On a comparable basis for the total company, we're looking at a decline of 1% to 3% or on an ex-Amazon basis total company, plus 1% to minus 1%, on a comparable basis. For each of the segments on a comparable basis, PeopleReady at flat to minus 3%; PeopleManagement at minus 4% to minus 6%; and PeopleScout at 5% growth to 15% growth.

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

Okay, great. And then with regards to just PeopleReady in terms of – it sounds like you are starting to see some positive traction with regards to JobStack. Can you talk about how that bakes into that comparable growth and basically what are you seeing here in terms of October?

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

A

Well, let's see. So we finished the quarter from an exit rate, PeopleReady at minus 1%. If we excluded the storm-related revenue out of that, we were looking at a decline in September of let's call it minus 3%. And then in the outlook that we just shared on a comparable basis for PeopleReady, we're at zero to minus 3%. So, a slight tick-up in the growth rate assumption for the fourth quarter compared to where we finished the third quarter.

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

Q

Great. And then can you just talk a little bit about any sort of regional developments that you're seeing, like obviously you've called out the hurricane impact, but can you talk about like California as an example, areas where minimum wages have been going up, has that stabilized in terms of the impact?

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

A

Yeah, certainly from a regional perspective, geographical perspective as you would guess the Southeast was our strongest showing related to the hurricane, so many areas of Southeast, Texas, Florida got into double-digit growth, lower double-digit growth. From a state perspective, I'm going to look at these numbers here real quick, so I don't miss quote them. California has shown – California has been in a decline for us over the last couple quarters and finished the third quarter at flat revenue growth.

So there's been a pickup in the trajectory of the trends, at least an improvement from the negative sales results getting to almost flat at the end of the quarter. So those are probably the two biggest highlights from a regional perspective. When you take a look at the rest of the country and it's just been slight tick-ups across the country, pretty broad based and pretty even.

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

Q

Great. And then a question for Patrick. It sounds like you're making good progress on JobStack. If we fast forward to six months from now, some of those stats that were mentioned in terms of number of associates, number of branches actually getting orders through the program, where would you expect it to be say in six months from now and then maybe a year from now?

A. Patrick Beharelle
President & Chief Operating Officer, TrueBlue, Inc.

A

Yeah. So six months from now, as I mentioned earlier, we've got 450 branches that are on the associate app. We'll have all of the PeopleReady branches on there within that six-month window, so we'll be at over 500. Same with the client rollout. We're in the early stages of that client rollout, but within the next six months all of our PeopleReady branches will be on the app.

In terms of a year from now, it's hard to predict, but I can tell you from a value creation perspective, what we're seeing in the early days are we're seeing a little bit of lift in fill rate in part because, as I mentioned in my prepared remarks, the number of workers that we're bringing on through JobStack, they tend to be more sticky and they tend to be more active in terms of taking more SIMOS, so that just creates a larger supply pool for us to fill demand in a tight candidate market, yeah that's going to drive higher fill rates.

The second thing that we're seeing is clients are giving us additional positions we otherwise might not had. So, it's too early to quantify the impact, but certainly clients are giving us scope we otherwise wouldn't have had. And then obviously we've got something to go out and talk about with clients now that we haven't had in the past. And so, acquiring new clients and retaining our existing clients, we think those are the real value levers for the capability we've developed. But I think it's too early right now to try to quantify what the impact is going to be 6 and 12 months out.

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

Can you just talk a little bit about the adoption among clients in some of the branches that have had JobStack the longest?

A. Patrick Beharelle
President & Chief Operating Officer, TrueBlue, Inc.
A

I think the headline is for every 10 clients that we're talking with, 3 are signing up. So the adoption rate is pretty high. This is sort of like – when we go out and talk with the client, it's sort of like taking cold water into the desert and giving them something that they're really excited about.

So yeah, this isn't really a challenge for us in terms of signing up clients and signing up workers. The real challenge for us is in execution, making sure that we're converting that capability into value, both for our clients and our associates. So that's the real challenge for us, but I would expect over time we're going to see increased fill rates, more physicians than we otherwise would have had and more clients than we otherwise would have had, as well as workers that are more sticky.

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

What sort of fill rates are you getting out of the ones that are coming across JobStack?

A. Patrick Beharelle
President & Chief Operating Officer, TrueBlue, Inc.
A

So, on average we're running around 10% of the – as Steve mentioned in his prepared remarks. For our highest performing branches, we're a little bit north of 50% in terms of those branches.

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

Q

In terms of fill rates, off of orders that are...?

A. Patrick Beharelle
President & Chief Operating Officer, TrueBlue, Inc.

A

In terms of the number of positions that are being filled.

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

Q

Right. I'm asking about just the fill rates in terms of the – so of the orders that are coming through JobStack, what percentage of those are getting filled?

A. Patrick Beharelle
President & Chief Operating Officer, TrueBlue, Inc.

A

Yeah, we tend to – well, it's probably not the easiest way to think about because we can fill them through the app, in some cases, we're filling them through our branch network as well.

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

Q

Yeah.

A. Patrick Beharelle
President & Chief Operating Officer, TrueBlue, Inc.

A

So our overall fill rates tend to grow on in the low 80s, but in terms of the physicians that are on the app, 10% on average and 50% on our highest performing branches.

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

Q

Okay great. Got some other questions, but I'll follow up offline. Thanks.

Operator: There are no further questions at this time. I will turn the call back over to the presenters.

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

Thank you. We appreciate you being with us today and as you can tell we're excited about the organic growth opportunities and strategies that we have ahead and the share repurchase authorization that was announced today and we look forward to updating you in February as we complete fourth quarter. Thank you.

Operator: This concludes today's conference call. Please be advised that any portion of today's call that you may have missed will be made available on the replay shortly on the IR portion of trueblue.com. Thank you and you now may disconnect.