30-Apr-2018

TrueBlue, Inc. (TBI)

Q1 2018 Earnings Call

Copyright © 2001-2018 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

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

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

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 First quarter 2018 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Mr. Derrek Gafford, CFO, 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.

Before we begin, I want to remind everyone that today's 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 non-GAAP measures when presenting in our financial results. Included as adjustments to net income are the gain from the sale of PlaneTechs, amortization of intangible assets, cloud-based software implementation costs, and adjustment of the effective income tax rate to the ongoing, expected rate of 16%. Adjustments to EBITDA include Work Opportunity Tax Credit processing fees and cloud-based software implementation costs.

Copyright © 2001-2018 FactSet CallStreet, LLC

Please refer to the non-GAAP reconciliations in today's earnings release and on our website at trueblue.com under the Investor Relations section. Any comparisons made today are based on a comparison to the same period in the prior year, unless otherwise stated.

We made one change this quarter with respect to our segment disclosures. We are now using the term segment profit in reference to the profitability of our segments, which aligns with the terminology we are now using within our internal management reporting. Segment profit is comparable to segment adjusted EBITDA numbers reported in the past.

Finally, as we did last quarter, we will be providing a copy of our prepared remarks on our website at the conclusion of today's call, and a full transcript and audio replay will also be available soon after the call.

I'll now turn the call over to Steve.

Steven C. Cooper

Chief Executive Officer & Director, TrueBlue, Inc.

Thank you, Derrek. Good afternoon, everyone, and thank you for joining us today. I'm pleased to report we made great progress across multiple fronts to improve our business this past quarter which resulted in delivering higher levels of profitability across all reported measurements this quarter.

Net income per share grew 100% to $0.22 for Q1. While revenue of $554 million was down 2% overall, organic growth in our PeopleScout business accelerated to 22% for the quarter. PeopleReady had 5% declines related mainly to our solar industry clients along with softness in certain U.S. regional areas. And our PeopleManagement segment revenue performed as expected.

We continue to make progress in reducing our cost of services mainly associated with workers compensation and recruiting expense which has resulted in our ninth consecutive quarter of gross margin expansion, and a 3% increase in gross profit for the quarter. We believe these management practices position us for strong operating leverage in the future.

The pace of change in connecting people to work is rapidly evolving, particularly when it comes to talent acquisition and workforce management. Widespread skill shortages, the need for just-in-time workforce adjustments and a tight labor market in which workers can choose from many offers are making it increasingly challenging to get the right worker in the right position at the right time. Job candidates are also increasingly turning to technology to find the work they want when they want it.

We are leading the way in digitally transforming how people find work and how businesses find people. JobStack is our digital platform in our PeopleReady business that matches workers with jobs and allows customers to initiate orders.

We are making nice progress with consistent improvement in utilization. The recent launch of our proprietary talent acquisition technology, Affinix, in our PeopleScout business is receiving high levels of praise from customers and a great deal of interest from prospective customers. We have the right strategy to meet the challenges in connecting people with work. Our services are differentiated and we are positioned for impressive long-term growth.

Today, we announced the divestiture of PlaneTechs, a provider of skilled mechanics and technicians to the aviation sector. PlaneTechs was part of our PeopleManagement segment with $40 million of annual revenue and

Copyright © 2001-2018 FactSet CallStreet, LLC

3% operating income margins. Over our 10 years of ownership, we accomplished many things and the asset provided good returns for our shareholders. However, today, our focus remains on larger markets with higher growth and higher profit margin opportunities.

Now, I'd like to turn the call over to Patrick, who will provide further discussion on our results and our growth strategies.

A. Patrick Beharelle

President & Chief Operating Officer, TrueBlue, Inc.

Thanks, Steve. I'll start with PeopleReady, our largest segment, representing 60% of trailing 12 months total company revenue and 53% of combined segment profit. PeopleReady's local relationships, national footprint of physical branch locations and growing use of technology, are helping clients find contingent industrial labor quickly and efficiently.

PeopleReady posted a revenue decline of 5% in Q1, a deceleration from the comparable decline of 1% we saw in Q4 of 2017. This deceleration was largely driven by two items that created 4 percentage points of headwind.

The first item relates to delays in solar-related construction projects, in part, due to the new tariffs on imported solar panels. We're working to fill the gap with a focus on growing local accounts.

The second item is softer revenue trends in the Southeast associated with turnover of sales professionals. In the back half of 2017, we had much higher than usual turnover on our sales team in the Southeast territory, particularly in our construction practice. We've since filled the majority of those open positions, but there has been a drag on revenue growth as the new sales team is ramping up.

We're excited about the future for PeopleReady given the fact that client adoption of JobStack is just starting to become a reality. JobStack is a next-generation mobile app that algorithmically matches workers with jobs.

We successfully completed the roll-out of the worker app in 2017, and we now have associate adoption rates of nearly 75%. Our goal was to hit 70% adoption in 2018, so we've already met that goal. As workers have adopted the app, we've also seen steady progress in the percentage of jobs being filled via the JobStack app.

Across our entire network, we're now seeing digital fill rates of approximately 30%. At this pace, we'll easily step over our 35% year-end goal ahead of schedule.

Client adoption is the next big goal since real synergies can only be achieved once both the worker and the client sides of the digital exchange are up and running. By the end of the first quarter, we had 4,300 unique clients on JobStack. We're currently on-track to meet our goal of 10,000 clients by the end of 2018.

While it's too soon to expect significant across-the-board lift from JobStack, we are encouraged by early results. Our best performing branches which are posting digital fill rates in excess of 50%, had sequential growth between Q4 and Q1 that was approximately 3 percentage points better than their peer branches. We hope to have more good news to report in the future, as we see this segment leveraging our digital strategy for years to come.

Next, let's turn to PeopleManagement, which represents 32% of revenue and 18% of combined segment profit. PeopleManagement provides on-site workforce solutions in the North American industrial staffing market. Revenue for PeopleManagement declined by 4% in Q1. PlaneTechs was part of this segment, and since we sold

Copyright © 2001-2018 FactSet CallStreet, LLC

this business three weeks before quarter end, the divested revenue created a 2% growth headwind. Excluding PlaneTechs, PeopleManagement declined by 2%.

We are optimistic about the growth opportunity for this business. We have a solid pipeline that reflects the attractive solutions we offer for on-premise staffing and see increasing opportunity in the labor intensive world of e-commerce.

Our third business unit is PeopleScout, the global leader in filling permanent positions through our recruitment process outsourcing and managed service provider offerings. PeopleScout represents only 8% of revenue, but represents 29% of combined segment profit, given its attractive margin. This business is performing very well, growing 22%, and now has exhibited double-digit top-line growth for three straight quarters.

We are increasingly optimistic about the future given the recent deployment of Affinix. Affinix is a next-generation, talent acquisition technology that streamlines the recruiting process and creates a consumer-like experience for the candidate. Clients are particularly excited about the enhanced candidate experience and world-class candidate attraction that Affinix delivers.

With that, I'll hand the call to Derrek for a more in-depth review of our financial results.

Derrek L. Gafford

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

Thank you, Patrick. Total revenue was $554 million, which is below our expectation of $557 million to $572 million. The sale of PlaneTechs created $3 million of the revenue shortfall from the midpoint expectation, with the rest coming from softer revenue trends at PeopleReady.

Net income per share was $0.22 which included a $1.4 million pre-tax gain from the sale of PlaneTechs or $0.03 of benefit.

Adjusted net income per share was $0.31 or $0.10 above the midpoint of our $0.18 to $0.24 expectation. $0.07 of the adjusted net income outperformance primarily came from lower cost of services in our staffing and PeopleScout businesses, with the remaining $0.03 from lower interest expense, higher investment returns, and lower depreciation.

Compared to the first quarter of 2017, adjusted net income per share increased by 48%, from $0.21 to $0.31. Out of this $0.10 increase, roughly $0.04 was from a lower effective income tax rate, $0.03 from higher adjusted pre-tax income, primarily driven by higher gross profit, and $0.03 spread across lower depreciation, a lower share count, and higher net interest income.

Gross margin of 25.8% was up 130 basis points representing our ninth consecutive quarter of year-over-year gross margin expansion. 70 basis points of the improvement is from lower workers' compensation expense in our staffing business. We have implemented a variety of claim management practices and the cost of claims is coming in less than expected. The remaining 60 basis points of improvement is from recruiting process efficiencies and the addition of new, higher margin business within PeopleScout.

SG&A expense was up $4 million with $2 million of the increase from the cloud-based software implementation costs discussed in my opening remarks and the remainder from higher operating costs associated with the growth in the PeopleScout business.

Copyright © 2001-2018 FactSet CallStreet, LLC

Total adjusted EBITDA grew 9% to $19.4 million and the margin expanded by 40 basis points to 3.5%.

Our effective income tax rate came in at 9%, benefiting from tax reform legislation and stronger performance on prior year Work Opportunity Tax Credits.

Turning to our segments, PeopleReady revenue declined by 5%. While revenue was down in the quarter, it's important to note that half of the branches had revenue growth during the quarter. As Patrick mentioned, the revenue deceleration is primarily isolated to the challenges in the solar industry, which makes up about 2.5% of total company revenue, and soft trends in the Southeast. Despite the revenue headwinds, effective management of workers' compensation expense and operating expense limited the drop in segment profit to 5% and kept segment profit margin even with Q1 last year.

PeopleManagement revenue declined by 4% overall, or a decline of 2% excluding the divested PlaneTechs business, right in line with our expectation.

Segment profit up 2%, and related margin was up 20 basis points from cost management results in both cost of services and operating expense. We like the look of our new client pipeline and the opportunity to improve revenue trends in the back half of the year.

PeopleScout revenue was up 22% from a combination of new logo wins and scope expansions. Segment profit was up 37% driven by revenue growth and a continued focus on recruiting process efficiency, as well as the addition of higher margin business, all of which helped increase segment profit margin 250 basis points.

The strength of our balance sheet and liquidity continue to improve. During the first quarter, cash flow from operations totaled $45 million and capital expenditures were $2 million, netting to free cash flow of $43 million.

We ended the quarter with total debt of $72 million and a debt to capital ratio of 11%, which was an improvement from 18% in Q4 2017.

On a trailing 12-month basis, our total debt to adjusted EBITDA multiple stands at 0.6. We did not purchase any shares during Q1 due to the pending PlaneTechs divestiture, but expect to return to the market on an opportunistic basis now that the transaction is complete. We have $93 million available under our share repurchase authorization.

I'd like to provide some additional detail on the PlaneTechs divestiture before I discuss our outlook. The business was sold, effective March 12 for about $11 million, representing a multiple of 7.7x 2017 segment profit. The divestiture will create a drag on revenue growth of about 2% over the next four quarters with a negligible impact on operating income due to the small revenue base and 3% segment profit margin. Additional details on the transaction are contained in today's earnings release presentation.

Turning to our outlook for the second quarter of 2018, we expect a year-over-year revenue trend of minus 2% to minus 4% or minus 2% to flat excluding the divested PlaneTechs business. We expect net income per share of $0.32 to $0.38 or $0.47 to $0.53 on an adjusted basis, which assumes a share count of 40.7 million and an effective income tax rate of 16%. Additional details on our outlook are contained in today's earnings release presentation.

We are focused on three simple principles to increase shareholder value. Our primary focus is centered on increasing organic revenue to drive higher adjusted EBITDA margins. While we are disappointed with the recent

Copyright © 2001-2018 FactSet CallStreet, LLC

revenue results at PeopleReady, the challenges are being addressed while we continue to advance our digital strategy to further differentiate our services and capture market share.

Our PeopleManagement business is stable, is performing in line with expectation, and has a promising revenue pipeline. And our PeopleScout business is performing exceptionally well with double-digit growth, strong segment profit margin expansion, and new technology that is garnering strong interest from prospective clients.

Our second area of focus is effectively managing our cost of services and operating expenses to further improve our ability to generate strong operating leverage over a larger organic revenue base. The attention to this area has produced nine consecutive quarters of gross margin expansion and kept operating expense in check.

Third is effective management of capital. Total debt to trailing adjusted EBITDA is at a multi-year low and we expect to continue returning excess capital back to shareholders through share repurchase. These items combined with a significantly lower effective income tax rate from tax reform, bode well for future earnings per share growth.

With that, we can now open the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And 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

Thanks so much. I wanted to focus on the PeopleReady business. You specifically called out two items for the weakness in the quarter? On the sales turnover side, can we get a little bit more color on that? Was there something specifically happening in those markets that was new to the company last quarter?

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

A

Hey, Jeff, this is Patrick. Thanks for that question. Nothing really new. But we didn't do as good a job as we could have in the Southeast of addressing a situation where a handful of competitors were aggressively targeting some of our top sales producers in local markets.

We've since righted the ship, we've filled the vast majority of those open positions, but it's taken some time to refill the pipeline from the folks that we lost. So, the situation, we've competitors that were aggressively targeting our top producers, particularly in the Southeast and particularly in the area of construction. So when we lost those folks, it set us back. But as I said, we've since filled those positions and we've got the right people in the right seats.

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

Q

Okay. And roughly what percentage of revenues would that have impacted?

Copyright © 2001-2018 FactSet CallStreet, LLC

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

Well, it was about $6 million of revenue in the quarter.

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

I'm sorry, $6 million that you generated or $6 million shortfall?

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

Shortfall.

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

Shortfall. Okay. All right. That's helpful.

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

Hey, Jeff, this is...

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

Yeah.

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

...yeah, this is Derrek. I'll give a little bit more color. Just so you know the Southeast region, that's one of three regions for PeopleReady. That makes up roughly about a third of the revenue. The decline that we're talking about, if we want to just bridge it in points of impact on revenue, we finished the fourth quarter on a comparable basis for PeopleReady at minus 1%. As we talked about today, we finished at minus 5%, that 4 points is equally split between the impact that we're talking about from solar and from the Southeast.

So, in direct answer to your question, the Southeast costs us in comparison of where we were trending in the fourth quarter that costs us about 2 points of consolidated revenue growth for the total company in Q1.

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

Okay, that's very helpful. And if I look at your guidance for that segment for the current quarter, I know there's a range, but at the midpoint it looks like you're expecting that kind of headwinds to continue, is that correct?

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

Yeah, the guidance that you're talking about is pretty comparable with the trend that we posted for the quarter. We exited the quarter at minus 6% for PeopleReady, so a point above what the results were for the quarter as a

Copyright © 2001-2018 FactSet CallStreet, LLC

whole. So, we'd expect to make a little bit of progress on that in Q2, but we're going to kind of stay with where the results are right now until we see the momentum actually building in the results, and then we'll forecast for better.

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

Q

Okay, that's understandable. Just shifting to the gross margin side, were there any actuarial adjustments from the workers' comp, I guess upside in the quarter?

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

A

Yeah, there were. There was about 100 basis points of credit, so that was up a little bit from where it was in Q1 of last year. But pretty comparable where we were with the fourth quarter. We're really pleased with the progress that we're making on the workers' compensation side. For those of you that have followed us for a while, we made a lot of progress in reducing that cost, primarily through safety programs and reducing the accident rate pretty significantly here over the last decade.

That's still our number one focus, but where we've gotten a lot of additional traction is in some claim management practices that we put in place over the last three, four years, some as recently as a couple of years that's bringing down the average cost of the claim in comparison with our – what our actuaries expected.

So, it's both providing some benefit to reserves posted in prior years, but it's also making a difference in the current year run rate that we're posting for work comp as a percentage of revenue.

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

Q

Got it. And then, on the PlaneTechs divestiture, are you thinking about any other pieces of the portfolio to potentially divest or are you pretty happy with what you have right now?

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

A

Well, it's something we always look at. We haven't done a lot of divestitures, we've been an acquirer, but we have our portfolio right in these three segments that we're operating in, and the value proposition that they each bring to the market from PeopleReady being short-term projects, PeopleManagement managing a longer term workforce for our clients, and then obviously PeopleScout doing the full-time recruiting.

So things that fit into those three categories remain important to us, and we are obviously trying to get the highest return we can for our shareholders, so something that we would evaluate, but we're really looking to align around those three things.

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

Q

Okay.

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

A

Copyright © 2001-2018 FactSet CallStreet, LLC

Yeah, Jeff, this is Derrek. Really the main thing there was the size of PlaneTechs, the size of the market in which they operated in, and then to a certain degree to the margin that existed with that business. So, now, as we were – just taking a look at the overall portfolio as Steve mentioned, we like what we have here. But PlaneTechs only made up 2.5% of the revenue, but it consumed significantly more than that as far as additional resources from shared resources that support these businesses, management time, et cetera. So this was really a move to concentrate on our larger market, higher growth, higher margin opportunities and that's the bottom line.

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

Okay, great. And just one quick follow-up. I know this will be in the transcript. I just wanted to confirm something. The impact of the gain on sale on adjusted EPS was what?

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

The impact from the gain on sale on adjusted EPS was zero. So that's excluded. The impact from the gain on sale on GAAP earnings per share was $0.03. So in our adjusted numbers, the spirit of those is to really exclude any items that aren't about fundamental year-over-year performance enhancement or decline, and so that's been excluded from adjusted EPS.

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

Got it. All right. I'm glad I clarified that. Thanks so 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 talk a little bit more about PeopleReady just with regards to both the Southeastern sales folks as well as the solar panels, in terms of when you think that those elements might be offset. Because, I mean the guidance is basically for a continuation. So just wondering do you think by the time we get to the third quarter, some of those headwinds would dissipate?

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

Thanks, Mark. This is Patrick. So we saw some delays and slowdowns related to solar. Clients were retooling their financial models, looking to buy, in some cases, stockpiled materials that are already here to avoid tariffs. We're likely to see some continued headwinds in Q2 related to solar. But clients are telling us that their needs for our services should be back closer to normal in the back half of 2018.

So, clearly saw some effects in Q1, expecting to see some effects in Q2, and then what clients are telling us is closer to normal back in Q3 and Q4. Just to give you a sense of the type of positions we are filling, about 80% of the positions we fill are installers. About another 10% are electrical positions, and about another 10% are operations. So it's a lot of installation and project base business.

Copyright © 2001-2018 FactSet CallStreet, LLC

Related to the Southeast, as I mentioned earlier, we think we're right at the ship there. We filled those positions with very talented sales professionals and sales managers. And so, we're expecting that in the back half of 2018, that we'll have seen the full impact of having those folks ramped up. But it does take some time to get folks ramped up and get their pipeline going and build those relationships, and so that clearly had a drag on Q1. And as Derrek mentioned in our outlook, we've sort of taken the run rate of the business into Q2, but I expect Q3 and Q4, we'll see those folks contributing in a big way.

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

A

Hey, Mark. This is Derrek. Just a little bit more color on solar. We ran about $12 million to $15 million a quarter last year with the exception of the fourth quarter. That was a bigger quarter for us. That was $25 million. We were – we're excited about the year ahead. We were building some momentum in that, and then, we saw a drop down this quarter from that $25 million. So, there's a little bit of headwind in here, in Q2 in our guidance, but really for the most part that headwind doesn't really hit that hard until the fourth quarter when we face that $25 million anniversary. So, we may have a little bit here in Q2, but it's more about a Q4 headwind where there will be the biggest piece of it.

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

A

You know, Mark...

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

Q

Okay. And then...

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

A

...a little more color on what Patrick said about this – the Southeast also is, although we're disappointed and it's caused the overall PeopleReady numbers to be lower than expected, the nice part is given its regional, we have our hands around what those reasons are versus a year ago when it was more related to brand-name changes and system changes, and it impacted a wider variety of regions and was more broad spread. So, the fact that we've got it narrowed down and it's really related to the competition now in the Southeast, not only they take some – they lost some good sales people, there's a little bit of price war going on down there that we're not participating in. And we could get our volumes up a bit if we are willing, but we just think it's short-term in nature with the talent supply shortage down there, that why this is happening is a little bit baffling to us, but at least we've got it regionalized and we understand it.

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

Q

Steve, is that competitor, a regional competitor or is it a national player who is just impacting you this down there?

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

A

Yeah, it's very regional focused.

Copyright © 2001-2018 FactSet CallStreet, LLC

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

Q

I mean, so that competitor is just focused on that region and...

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

A

Yes.

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

Q

...doesn't have operations elsewhere?

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

A

Right. Yeah.

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

Q

Okay.

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

A

And it's heavily driven in Florida. We're really talking – that's really what we're referring to.

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

Q

All right. So, it's basically Florida was the impact there. And so hopefully, your new sales people should be able to fill the gap by the time we get out towards the second half?

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

A

Well, I think that's right. Patrick has given us some confidence here on this call here today. And I think its spot on. What can't be assured is the competitive front, and where they are on a pricing war that we're unwilling to participate in.

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

Q

And so if that price war continues, then even if you've got the sales people in place, you may not actually have the same volumes, right?

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

A

Yeah, I don't think it can continue. I think that we're fine there. And we've got great clients, great team of play, adding these additional sales force in will be fine. It's just that we're not willing to play here early in the season at the level that some are.

Copyright © 2001-2018 FactSet CallStreet, LLC

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

Q

Okay. And on PeopleReady, just with regards to JobStack, how much of the revenue that's projected for the second quarter that occurred in the first quarter? Would you attribute to a lift from JobStack?

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

A

Well, as I mentioned on the – earlier on the call, when we look at the branches that have been heavy adopters of JobStack, Mark, we've seen about 3 points better revenue lift in Q1 than the branches that have not been as successful in terms of filling positions with JobStack. So there's clearly some lift that's happening with JobStack, but it's still early days. I don't think we should be attributing specific revenue lift at this point in Q2 to JobStack.

We've got some isolated incidences, example, we've had 192 companies that have given us skills that we believe they otherwise wouldn't have given us in Q1. JobStack has been a good prompt for us and a good sales tool in expanding with our existing client base. And as I said, we've seen some lift in those branches, they're the heaviest adopters. Derrek, I don't know if you have anything to add to that, but I don't think we're ascribing specific lift in Q2 to JobStack at this point.

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

A

No, that's right. As far as our guidance for Q2, we're just making an assumption here based off of our – everything that we look at from revenue trends to supply of workers, where we're doing on bringing on new customer accounts and reactivating existing customers. We're considering that that trend is just going to play itself out that as it would ramp up seasonally based on the trends that we've got. So, we don't have anything extra put into our Q2 guidance for more lift that would come incrementally from JobStack in that quarter based on improved metrics in the second quarter versus what we have in the first quarter.

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

Q

And what percentage of the branches at this point are – have implemented JobStack to your satisfaction?

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

A

Well, to satisfaction is a qualitative term. We've got about one-fifth of the branches that are over 50% of jobs being filled through JobStack, so we're really pleased with that top 20%.

So we've got a lot of upside on JobStack, we believe it's a game changer. So, I'd like to get those other branches, those other 80% to north 50% as well. We've put out some targets late last year that we can get to 35% by the end of the year.

I think we're going to step over that number, we're already at 30% today. So we're pushing as hard as we can, Mark, to get all of the branches to get north of 50%. So, it's just a matter of time before that happens.

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

Q

Copyright © 2001-2018 FactSet CallStreet, LLC

Okay great. And then can you talk a little bit about PeopleScout? I mean that was better than expected. You getting new logos, can you talk about the new logos where you're getting them from? What regions, were they new to RPO or did you just win them over? And what you're seeing with the existing clients and what the sales pipeline looks like?

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

A

Yeah, we're really pleased with PeopleScout. What's – what are things that's most exciting about PeopleScout, when you look at the wins that we had in Q4 and in Q1, a lot of them were first-time RPO buyers, in the aviation sector, in the government sector, in the telecommunications sector. And so these are multi-year, multimillion-dollar client engagements first-time buyers. So, that's particularly exciting.

And the nice thing about RPO engagements is, oftentimes clients don't outsource their entire recruitment function, they outsource pieces of it. And then as the RPO engagement proceeds and is successful, then you see more scope and more revenue and more partnership. And so a lot of the clients that we signed in Q4 and Q1 were for pieces of their recruitment function, so there's a lot of upside, a lot of whitespace and running room on the deals that we signed that are new. And so that was the biggest driver of our growth.

We also saw a number of scope expansions, particularly in hospitality. We do a lot in the hotel space. And so, we saw some nice expansion in our hospitality clients in Q1. And so the growth was across the board by the way. Asia Pacific was up double-digits. Our legacy PeopleScout business sort of pre-Aon acquisition was up double digits. The Aon portion of PeopleScout that was acquired was up double digits. And so it was an across the board increase in PeopleScout. And so we're bringing on higher margin clients and it's creating some leverage as you saw in our earnings with PeopleScout. I think that there's more upside to be had within our existing client base.

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

Q

That's great. And so it sounds like you feel pretty confident about the trajectory of the growth continuing on the PeopleScout side?

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

A

Yes.

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

Q

Great. And then on PeopleManagement, basically take out PlaneTechs and were kind of flattish. How would you divide that between SIMOS versus the non-SIMOS business?

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

A

Hey, Mark. Yeah, so we were down two points for the PeopleManagement group excluding the PlaneTechs business, right in line with what we had expected.

We're expecting that to pick up a little bit. As we move into Q2, our guidance is flat to plus 2%. Most of that pick up that we're looking at where we're actually thinking about that more on the Staff Management side of things and the pipeline at Staff Management is – we've got a nice pipeline building there.

Copyright © 2001-2018 FactSet CallStreet, LLC

The SIMOS business, we're really pleased with that acquisition. We're talking about here for everyone listening is our productivity based solutions at SIMOS. That business runs about a 7% to 9% EBITDA margin, so it runs higher, the blended average both for PeopleManagement and for the company as a whole.

To give you some perspective on how big those two are, of the PeopleManagement business from a revenue perspective, SIMOS makes up about 25% of the revenue there, a little bit more on the profit, almost half of the profit margin. We think there's good growth potential for SIMOS right now. It's just – these are big customer engagements when we do the wins here. So, it's not like PeopleReady, a little bit here or there, so nothing impending that's going to be hitting in Q2, but we're optimistic about the future for SIMOS.

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

Q

Okay. Great. Thank you. I'll get back in the queue.

Operator: [Operator Instructions] At this time, we're still waiting for callers to join the queue. Mr. Cooper, would you like me to hold the call open for another minute while we gather questions?

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

A

Yeah. Just here for 30 seconds or so.

Operator: [Operator Instructions]

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

Okay, that's fine. We'll go ahead and close the call.

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

[indiscernible] (00:39:46).

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

No. We were excited about the opportunities ahead here. Thank you for joining us today. The economic backdrop continues to be constructive. We're working to capture that near-term market opportunities while staying focused on our strategies to drive long-term growth.

Let me remind you of the four strategies that we're working on. First, invest in market disruptive technology of JobStack for our PeopleReady business which will strengthen our market leadership role as one of the largest U.S. industrial staffing providers. Two, deliver attractive on-premise and outsourced solutions for larger strategic clients in our PeopleManagement segment.

Three, investing opportunities to grow our number one global leadership position at PeopleScout. These investments will continue to include technologies to improve the quality and quantity of the candidates that we're

Copyright © 2001-2018 FactSet CallStreet, LLC

able to deliver on a global scale with a high degree of efficiency on our part. We will also continue to seek M&A opportunities to broaden our geographical footprint at PeopleScout. And fourth, manage our capital efficiency. We're operating with 3 percentages less shares than we were a year ago and we believe that continues to be an effective method to improve our returns for shareholders.

We appreciate you being on the call with us today and looking forward to updating you as the quarter progresses. Thank you.

Operator: This concludes the TrueBlue first quarter 2018 Earnings Conference Call. Thank you for joining. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2018 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.