PARTICIPANTS

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

Henry Sou Chien – Analyst, BMO Capital Markets (United States)
John Healy – Analyst, Northcoast Research Partners LLC
Mark S. Marcon – Analyst, Robert W. Baird & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Shawntel and I will be your conference operator today. At this time, I would like to welcome everyone to the TrueBlue's Second quarter 2018 Earnings 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, Executive Vice President and 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 President and 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 risk and uncertainties, and we assume no obligation to update or revise any forward-looking statements. These risks and uncertainties, some of which are described in today's press release and in our SEC filings, could cause actual results to differ materially from those in our forward-looking statements.

We use non-GAAP measures when presenting our financial results. Included as adjustments to net income in our Q2 results are integration and acquisition costs, 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.

Additionally, in our outlook for Q3, we have included an adjustment to net income and EBITDA for the acceleration of equity grants associated with the CEO transition announced today. 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.

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

Okay, 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. Our total revenue increased 2% on an organic basis, excluding our divested PlaneTechs business and the recent acquisition of TMP. We are pleased with this quarter's results, which included revenue growth at PeopleReady, operating margin expansion, and strong growth in net income per share. We experienced widespread revenue improvements in our PeopleReady business, driven by consistent focus on business development activity.

For Q2, PeopleReady revenue increased 2% versus the 5% decline in Q1. Our PeopleScout segment produced 19% organic revenue growth in Q2, which was the fourth quarter in a row with double-digit growth. Efforts to reduce our cost of services across all segments continue to produce value. Our gross margin expanded 150 basis points, our 10th consecutive quarter of gross margin expansion, which contributed to our adjusted net income being stronger than expected. Net income per share increased 42%. This improved profitability was the result of a lower effective tax rate, share repurchases, and stronger business results. In particular, the strong revenue results at PeopleReady, continued growth in our high-margin PeopleScout business, and the fact that our focus on reducing our cost of services is paying off, all drove profitability growth. The progress we've made is a welcome confirmation that we're focused on the right strategic priorities.

On the technology front, we are leading the way in digitally transforming how we connect people and work. JobStack is our digital platform in our PeopleReady business that matches our workforce with available jobs and allows our customers to initiate orders. JobStack can make this match within minutes and provide customers with the confidence their needs will be met, as they have the ability to track their orders from dispatch to arrival and quickly approve the workers hours at the end of their shift. The recent launch of our proprietary talent acquisition technology, Affinix, in our PeopleScout business continues to receive high levels of praise from our customers and a great deal of interest from prospective customers. Affinix provides jobseekers a user-friendly experience and quickens the pace of filling customers' requisitions.

Our global RPO strategy remains a key priority. Over the past two years, we've been executing on our initiative to expand the global presence of our PeopleScout business in the RPO space. During Q2, we announced the acquisition of TMP, a leading provider of RPO services, resourcing and recruitment marketing services in the United Kingdom. While relatively small in size, the strategic importance of this acquisition is worth noting. Not only does it expand our highest-margin business, it also opens the door for us in the UK and the European region, improving our ability to compete for multi-continent RPO engagements.

Another topic we've frequently addressed is our commitment of returning capital to our investors through share repurchases, to enhance shareholder returns. During Q2, we repurchased $19 million of stock, and we will remain active in this regard. We have a significant portion of our $100 million authorization received in late 2017 remaining to buy back shares.

Today, we also announced that I've decided to retire at the end of December. After nearly 20 years as an executive at TrueBlue, and over 12 years as CEO, the board has asked me to serve as Chairman of the Board, and I'm excited to remain involved with TrueBlue in this board leadership role. I'm very excited to announce that Patrick Beharelle has been named our new CEO, effective September 1, at which time I will begin serving as the Executive Chairman of the Board. Upon my retirement at the end of 2018, I'll remain in my board leadership role as Chairman of the Board.

Patrick has spent over 22 years in the staffing, recruitment process outsourcing and consulting industries. Since joining TrueBlue in 2014 and taking on the role of President and Chief Operating Officer in 2015, he has worked closely with me, the full executive team and the board of directors as he has led all operations across the company, including sales, human resources and our digital transformation. He's a well-respected and proven leader within our organization, with our customers and with our industry. His industry experience, track record of success and intimate knowledge of our business make him an exceptional choice as our next CEO.

Joe Sambataro has served as our Board Chairman for 10 years and as a Director for 18 years. He has been involved with TrueBlue for over 21 years and while an executive he served in multiple roles including CFO, President and CEO. During Joe's years of service, revenue has grown over tenfold. Joe will continue to serve as a director on the board. We all thank Joe for his significant contributions to our organization. We are grateful for his impact that will last well into the future.

We are also taking this opportunity to add one more highly accomplished individual to the board. Effective immediately Kristi Savacool will join TrueBlue's board of directors. Kristi is a proven leader in the human resources and technology industries. She served as chief executive officer of Aon Hewitt, the global human resource solutions business of Aon, until her retirement earlier this year. She was responsible for setting the firm's business and solution strategies and overseeing its global operations as well as sponsoring relationships with its largest clients, including a substantial portion of the Fortune 100. We welcome Kristi to our board and we look forward to her contributions.

With Patrick's significant experience and professional drive as our new CEO, along with a very strong board and management team already in place, we believe we have the right leadership to guide TrueBlue through its next phase of growth.

In conclusion, I want to thank all the board members and all the leaders along with all of the employees that I have worked with over the many years of service at TrueBlue. They have all had a significant positive influence on me and it's been an extreme pleasure working so closely with them throughout so many phases of growth and change at TrueBlue. Our mission of connecting people and work is noble and the shared values we all live in carrying out this mission are impressive. The future is bright for TrueBlue. We have exciting strategies that will continue our growth and meet the needs of the marketplace in the changing world of work.

I look forward to continuing my service in my new role, and I'm excited to see the strong leadership and experience of Patrick and the full leadership team expand upon what we've built together.

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

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

Thanks, Steve. I'd also like to thank members of the board for their leadership and support. Indeed the future is bright at TrueBlue. We have a great team and strategy in place, and I'm excited about the opportunity to lead TrueBlue into its next phase. I'm going to walk us through the results of our segments, and I'll follow that with a strategy discussion before turning it over to Derek for more financial results.

PeopleReady is our largest segment, representing 60% of trailing 12 months total company revenue and 54% 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's 2% top line growth was driven by strong business development execution. The changes we made in Q4 of last year are delivering the benefits we intended. We flattened the organization to provide more accountability and focus on delivering service excellence to clients. We also made significant investments by adding more revenue-generating resources to the PeopleReady field organization. As a result, we are adding new clients at a faster pace and gaining wallet share with our existing clients, both of which contributed to improving trends at PeopleReady.

Turning to PeopleManagement, which represents 31% of revenue and 17% of combined segment profits, this segment provides onsite workforce solutions in the North American industrial staffing market. Revenue declined 2% excluding the impact of PlaneTechs, which we sold during the first quarter. Our same-store sales were somewhat lower than expected due to lower production volume with consumer products customers. While we continue to win new business, sales cycles have elongated a bit and the conversion rate wasn't strong enough to provide a full offset to same-store headwinds. However, the front-end of the pipeline is strong. By leveraging our onsite delivery offering, we are well-positioned for long-term growth in PeopleManagement.

Earlier this month, we received notice that Amazon will be taking their Canadian business in-house effective this September. This is consistent with the strategy they began to employ in the second half of 2016 to take more control of their own service network. Over the past year, we've continued to service Amazon's Canadian operations and while we successfully delivered on their contingent staffing needs by exceeding all key performance indicators, they have now decided to insource their Canadian operations to mirror the shift they made in their U.S. operations back in 2016. While this is not necessarily welcome news, Amazon is already a much smaller portion of our business than it was in 2016, and the diversity of our overall client base remains a source of strength, with no single client representing more than 3% of total company revenue on a trailing 12 month basis.

Turning to our final segment, PeopleScout is the global leader in filling permanent positions through our recruitment process outsourcing and managed service provider offerings. PeopleScout represents only 8% of revenue, but 29% of combined segment profit, given its attractive margin. The business grew 19% organically, which was its fourth consecutive quarter of double-digit top line growth, and segment profit expanded 12%. Continued growth and margin expansion is driven by both existing clients and new clients, as we leverage our proprietary technology, global delivery capabilities, and market leading position.

Now I'd like to shift gears and talk a little bit about the overall direction of the company and the industry. The world of work is rapidly evolving. Many of the verticals where TrueBlue operates are experiencing skill shortages, and these shortages will likely increase in coming years. Our clients are trying to make just in time workforce adjustments even as the labor market tightens. And our workers are also seeking increased flexibility, while using technology to find the work they want when they want it.

All of these changes create an opportunity for TrueBlue to leverage our digital strategy, along with our existing network of clients and workers to transform the way people find work and businesses find people. We see our digital strategy as helping us solidify our position as a leader for filling contingent and permanent positions, and therefore creating value for our workers, our clients and our shareholders.

With that in mind, I'd like to give you an update on both JobStack and Affinix.

JobStack is PeopleReady's next-generation mobile app that algorithmically matches workers with jobs. We successfully completed the rollout of the worker app in 2017, and we now have associate adoption rates of nearly 75%, which already exceeds our 70% target in 2018. In addition, the percentage of jobs being filled via JobStack app continues to show progress. Across our entire network, we're seeing digital fill rates of approximately 30%, which is nearing our 35% year-end goal.

Client adoption is our next major strategic goal. We are seeing synergies now that both the worker and the client sides of the digital exchange are operational. By the end of June, we had 7,000 unique clients on JobStack, putting us on track to meet our year-end goal of 10,000. JobStack is already creating value for us, and I'll share with you some of the statistics to make that point.

Our overall associate retention rates have been increasing, largely due to associates on JobStack being significantly stickier and more active in taking shifts than associates not on JobStack. Also, over 80% of clients on JobStack report that PeopleReady is filling a higher percentage of their orders than prior to their use of JobStack. In addition, we continue to find that branches that have most aggressively adopted JobStack, those with greater than 50% of their orders filled via the tool, had 2 percentage points higher year-over-year revenue growth versus all other branches.

In summary, JobStack is helping us boost both worker and client loyalty and we're also starting to see revenue lift. These are all exciting developments and we hope to share more in the future.

PeopleScout's new Affinix platform, our proprietary talent acquisition technology launched late last year, is resonating well with existing and prospective customers. And we are increasingly optimistic about the growth potential created by this strategic approach. In fact, since the Affinix launch, PeopleScout has secured 18 new logo RPO wins and 28 client contract extensions. Affinix is a next-generation talent acquisition technology that streamlines the recruiting process and creates a consumer-like experience for the candidate, making it a world-class candidate attraction technology.

Another key piece of our strategy for PeopleScout fell into place with the acquisition of TMP. As Steve mentioned, this acquisition opens the door for us in the UK and European region, increasing our ability to compete on multi-continent RPO deals. The UK is the second largest RPO market in the world, and it's also one of the most common markets included in multi-continent RPO deals.

The TMP acquisition brings us a physical presence and referenceable clients, which we believe will enhance our ability to compete on multi-continent engagements. Furthermore, TMP has a strong employer branding practice. And this adds a new in-demand solution to our existing RPO services, since employer branding is now part of more than 50% of all RPO engagements.

In summary, PeopleScout is performing very well and we're excited to leverage both Affinix and our expanded global presence to win multi-continent deals and drive growth going forward.

With that, I'll hand the call over 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. I'm excited about the leadership transitions announced today. I'm happy that Steve has agreed to serve in a leadership capacity on our board of directors. His knowledge of the human capital industry, shareholder-focused mindset and strategy development skills will serve shareholders well into the future.

I'm also pleased to see Patrick become our next CEO. I've had the opportunity to work closely with Patrick over the last four years. He is an effective and well respected leader at our company and has a strong command of the businesses we run. The company's preparation for this event has been thoughtful and thorough to ensure a seamless transition while maintaining momentum on strategic priorities.

Turning to the quarterly revenue results, total revenue of $614 million was higher than our $585 million to $600 million expectation due to stronger performance by PeopleReady. The acquisition of TMP added about $3 million of revenue, but did not have a meaningful impact on total company profit.

Net income per share was $0.44 and adjusted net income per share was $0.57, or $0.07 above the midpoint of our $0.47 to $0.53 expectation. The adjusted EPS performance was primarily driven by stronger performance of the PeopleReady business.

Adjusted net income per share increased by 36%, or $0.15. Out of this increase, roughly $0.08 was from a lower effective income tax rate, $0.02 from a lower share count and $0.05 from operational performance.

Gross margin of 27% was up 150 basis points representing our 10th consecutive quarter of year-over-year gross margin expansion. 90 basis points of the improvement is from our staffing businesses, primarily driven by lower workers' compensation expense as a result of a variety of safety and claim management practices. 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 $9 million with $2 million of the increase from integration, acquisition and cloud-based software implementation costs, $1 million of operating costs from the acquired TMP business and the remainder from higher operating costs associated with organic growth initiatives.

Total adjusted EBITDA was up 9% to $33 million, and the margin was up by 40 basis points. Our effective income tax rate came in at 13%, less than our 16% expected rate as a result of stronger performance on Work Opportunity Tax Credits.

Turning to our segments, PeopleReady revenue grew by 2%, an improvement from the decline of 5% in Q1. The improving revenue trends were broad-based across most geographies and industries. Segment profit was up 21% as a result of revenue growth and higher gross margin.

PeopleManagement revenue declined by 7% overall, or a decline of 2% excluding the PlaneTechs business that was divested in Q1 of this year. This was slightly below our expectation due to lower production volumes at certain clients. Segment profit was down 15% excluding PlaneTechs and the overall margin was down 60 basis points. In Q2 2017, this segment experienced a client service level benefit that did not reoccur in Q2 2018. Excluding this item and the PlaneTechs divestiture, segment profit declined by 9% and the related margin was down 20 basis points.

PeopleScout revenue was up 25%, or 19% on an organic basis from a combination of new logo wins and scope expansions. Segment profit was up 12%, but segment profit margin was down 230 basis points this quarter due to $1 million of administrative costs that are not expected to reoccur. Excluding this expense, segment profit was up 19% on an organic basis and related margin was up 10 basis points.

We acquired TMP, which is now part of our PeopleScout segment effective June 12, 2018. The purchase price was $23 million, representing a valuation multiple of 7.5 times next 12 months segment profit. We expect TMP to produce annual revenue and segment profit of $50 million and $3 million respectively with an impact to our Q3 outlook of approximately $15 million and $1 million respectively. Our outlook does not assume any synergies.

I want to take a moment to discuss TMP's segment profit margin, since many of you may have noticed that the annual implied 6% segment profit margin on TMP's business is lower than the margin in the legacy PeopleScout business. The lower segment profit margin is primarily the result of low-margin pass-through revenue related to media purchases on behalf of clients and higher service delivery costs due to the small size of the business in relative comparison to the legacy PeopleScout business.

Excluding the media pass-through business, the underlying segment profit margin is approximately 14%. We believe there are variety of integration opportunities to lower service delivery costs, which we will speak about more after we complete our integration work over the next 12 months. We also expect a smooth integration as we apply the RPO integration process that was created after the Aon Hewitt RPO business was acquired in 2016.

The balance sheet remains strong. Year-to-date cash flow from operations totaled $49 million and capital expenditures were $6 million, netting to free cash flow of $43 million. We ended the quarter with total debt of $117 million and a debt-to-capital ratio of 17%. On a trailing 12-month basis, our total debt-to-adjusted EBITDA multiple stands at 0.9. We made good progress returning capital to shareholders. Year-to-date, we repurchased $19 million of common stock, all of which was repurchased in Q2, representing nearly 50% of year-to-date free cash flow, which is defined as operating cash flow less capital expenditures. This leaves $74 million available under our existing authorization.

In July, we established a new credit facility which replaces our previous credit facility that was set to expire in June 2019. Our new revolving credit facility provides a line of credit up to $300 million, similar to our prior facility, with an accordion feature up to $450 million. For additional details, please see the 8-K filed on July 16.

We also filed an S-3 renewing our shelf registration, which was set to expire on August 13 of this year. While we have no plans to use this registration, it allows us to quickly access capital should the need arise.

Before turning to the company outlook, I want to specifically address the impact of Amazon. For the last 12 months, revenue and segment profit from Amazon totaled $53 million and $6 million, respectively. The loss of Amazon business effective September 1, 2018 will create a revenue headwind of approximately $8 million in Q3 2018, or a growth headwind of 4% for PeopleManagement and 1% for the total company.

The fourth quarter is our highest volume period with Amazon and the revenue headwind will be $24 million, or a growth headwind of 11% for PeopleManagement and 4% for the total company. Additional quarterly details on Amazon are available in today's earnings presentation.

Turning to our total company outlook for the third quarter of 2018, we expect revenue growth of 0% to 2%. Excluding acquired TMP revenue, the divested PlaneTechs business and the Amazon business, the underlying organic growth rate is expected to be 1% to 3%. As a reminder, the company's revenue growth in Q3 2017 benefited by about 1-percentage-point from hurricane-related business. We expect net income per share in the third quarter of 2018 of $0.54 to $0.60, or $0.75 to $0.81 on an adjusted basis, which assumes a share count of 40.1 million and an effective income tax rate of 16%.

We are focused on three simple principles to increase the shareholder value. Our primary focus is centered on increasing organic revenue to drive higher adjusted EBITDA margins. With PeopleReady returning to growth, the future looks bright due to the strong operating leverage in this business. PeopleReady makes up 54% of total segment profit and has the potential to deliver a 15% plus incremental operating margin on mid-single digit organic revenue growth.

Our second area of focus is effectively managing our cost of services and operating expenses to further improve our ability to enhance adjusted EBITDA margin. The attention to this area has produced 10 consecutive quarters of gross margin expansion and kept operating expenses in check.

Third is effective management of capital. Total debt to trailing adjusted EBITDA is less than 1 turn, despite the recent purchase of TMP and stock repurchases. We expect to continue returning excess capital back to shareholders through share repurchase. These items combined with a significantly lower effective income tax rate bode well for future earnings per share growth.

Okay. We can now open the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Jeff Silber with BMO. Your line is open.

<Q – Henry Chien – BMO Capital Markets (United States)>: Hey, good afternoon. It's Henry Chien calling for Jeff. I just wanted to follow-up on the Amazon impact. I think you said that it was $24 million in revenues, I believe, for this current quarter and then $8 million, I didn't catch what that apply to. So, just, I guess, first question is, beyond that quarter what's the size of the Canada business that we should assume should be going away?

<A – Derrek Gafford – TrueBlue, Inc.>: Hi, Henry. Good afternoon. It's Derrek here.

<Q – Henry Chien – BMO Capital Markets (United States)>: Hey.

<A – Derrek Gafford – TrueBlue, Inc.>: So, the $8 million of headwind that we were referring to is the headwind that's going to come in Q3 as a result of less Amazon headwind. Your question as far as where the Amazon relationship stands in its totality on a trailing 12-month basis, we've done $53 million of revenue with Amazon and $6 million of segment profit.

I'll refer you back to – you haven't got a chance to look at all this, but if you take a look at our earnings release deck in our outlook section, we put some quarterly information trailing four quarters of both the revenue and the segment profit that will be helpful for you. But in big picture, $50 million of revenue-ish, $6 million of segment profit, about half of that segment profit, let's call it, $3 million or so will be a headwind this year and then the other $3 million will be a headwind through the first, mostly the first two quarters of next year.

<Q – Henry Chien – BMO Capital Markets (United States)>: Okay. Got it. Okay. That's helpful. And $6 million that's for the year, that $6 million?

<A – Derrek Gafford – TrueBlue, Inc.>: Yeah, the $6 million is on a trailing four quarter basis.

<Q – Henry Chien – BMO Capital Markets (United States)>: Got it. Okay. And so, for third quarter, sorry if I missed this in the slide deck, the operating impact from Amazon for 3Q.

<A – Derrek Gafford – TrueBlue, Inc.>: It's going to be about $8 million less in revenue than we would have if we kept the relationship and kept revenue flat on a year-over-year basis.

<Q – Henry Chien – BMO Capital Markets (United States)>: Got it. And like the operating profit impact?

<A – Derrek Gafford – TrueBlue, Inc.>: Probably around $1 million-ish maybe a little bit south of that on the segment profit basis.

<Q – Henry Chien – BMO Capital Markets (United States)>: Got it. Okay. Great. Thank you. Okay. That's very helpful. Yeah, just shifting over to the RPO business, and I guess, by the way congratulations, Steve and Patrick. Just, it seems like that is becoming – it seems like that's more of a strategic focus. Are you looking for more acquisitions to kind of scale up the business? I guess, that's the first question. And second is, the growth, what's been driving such kind of strong accelerated growth and how confident are you that that can be sustainable for the next few years? Thanks.

<A – Patrick Beharelle – TrueBlue, Inc.>: Thanks, Henry. This is Patrick. In terms of acquisitions, PeopleScout business, we've got a position of strength in North America, position of strength in Australia/New Zealand. The areas we haven't had as much strength have been in Europe and in

Asia. And so, we've been growing those areas organically, but we thought it made a lot of sense to jumpstart our capabilities in Europe with the TMP acquisition. As we try to go out and sell new deals, it's important to have referenceable clients locally.

So, we've not completed that acquisition in Europe. We've been looking in Asia, haven't necessarily found anything that fits what we're trying to accomplish, but we're going to continue to look for opportunities that expand our global capabilities.

In terms of your second question around the growth, it's been a mix of going out and selling new deals. We've had a lot of sales success, particularly since we launched the Affinix platform. I go on a lot of sales calls and talk with a lot of clients, and the excitement around the Affinix platform is high, and that's helping drive our win rate up in recent quarters. And so that bodes well for future quarters.

We're also seeing a good bit of expansion within our existing client base. Often times, when an RPO deal is sold, it's for a partial amount of scope. And when we prove ourselves then the client will continue to add more positions, more geographies, more process steps. And so that combination of going out and winning new engagements and expanding scope with our existing client base have been the two primary drivers of growth for PeopleScout.

<Q – Henry Chien – BMO Capital Markets (United States)>: Got it. Okay. Yes. That's helpful. And just in terms of the demand for RPO, if this is a right way to think about it, is there kind of a meaningful shift to using RPO and versus using a permanent placement type of service of a TMP firm or a placement firm?

<A – Patrick Beharelle – TrueBlue, Inc.>: Well, one of the things that we've seen over the last couple years is companies are looking for scalability, both from a seasonal perspective as well as a cyclical perspective. And so, lot of clients are engaging us for scalability reasons.

A second reason that we're seeing clients engage us is, our field engagements typically are a cost savings opportunity for clients, particularly if they're using third-party agencies which carry a much higher cost on a per hire basis. And so, it depends on the client starting position, the degree of savings, but we're seeing a lot of opportunities for saving clients significant amount of money, and that's one of the key reasons why they're engaging us in addition to that scalability point that I made earlier.

<Q – Henry Chien – BMO Capital Markets (United States)>: Okay. Great. Thanks for the color.

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

<Q – John Healy – Northcoast Research Partners LLC>: Thank you. I wanted to ask just a little bit more about the bounce back in PeopleReady revenues this quarter. I was wondering if you could give us a little bit more color on the performance by month for the segment, and if you look at kind of hours versus wages maybe what the performance might be for that segment?

<A – Patrick Beharelle – TrueBlue, Inc.>: Yeah. We're really pleased with the performance this quarter with PeopleReady, the 2% growth. PeopleReady exited the quarter at 3% exit rate. If you get into looking at the revenue trends, it was a very broad-based quarter for us, the improvement. It wasn't a big project. It wasn't a big client. Every industry vertical that we serve neither had growth or the sales spend improved on a year-over-year basis. We're comparing Q1 to Q2. From a geographic perspective, very broad-based as well. All our top 10 states, the revenue trends improved from Q1 to Q2. And only exception to that's California. California had a minimum wage increase that went into the play at the beginning of the first quarter. So, we normally see a spike in revenue as we increase the bill rates and then that tapers down a little bit as people trim some hours and then it tends to recover in the third quarter. So, I think that has less to do with us and some of the adjustments we've made from a business development perspective than it does for any other reasons.

Your last question when it comes to margin or to bill rates, hours are slightly down for us. I mean, our bill rates are running up about 5%-ish. So, you deduct out to the – do the math on the hours, you've probably got an hour decline of around 3%. That's probably that's where we've been from an hour's perspective. The hour's declines have been slightly larger than that if we looked at prior periods. So, I think I got all your questions there, John. If I missed something, once you hit me back with another follow-up question.

<Q – John Healy – Northcoast Research Partners LLC>: No. That's very helpful. And just wanted to ask just kind of where we're at with the business right now. As I look out the next few quarters, seems like there's a number of moving parts with TMP acquisition, the Amazon business how the Canada kind of going away. Just as you look at the revenue profile of the company. And if I kind of take your guidance on a pro forma basis, low-single-digit revenue growth, in that kind of environment and where you're at with investments on your business today, what do you think that kind of corresponds to the level of SG&A that you'd grow in the business?

I feel like SG&A has been growing more to mid single-digit type cleft even though the revenues are kind of low single-digit is. Is that the right kind of calibration for what that SG&A level should be given the revenue growth you're seeing on the business maybe the next few quarters?

<A – Patrick Beharelle – TrueBlue, Inc.>: Sure. Well, from a broad perspective, we're feeling really good about the future here. I'll just talk about where we feel from a growth perspective, from a macro perspective. We like the macro environment, things look really healthy to us. And this is an environment where we think we can be putting up mid-to-upper single-digit organic growth percentages, and really be pushing some operating leverage to the business.

From an SG&A perspective, in some of our results, we've got some add-backs in there, some unique items. So, if you look at our guidance for the third quarter and exclude any unique items that we've got in there for add-backs, the rate of SG&A growth is pretty close to what we'll expect the revenue growth to be on an organic basis. So, I think it's pretty much in line with where the revenue growth is headed. And with the gross margin expansion that we've been having, that should still produce some nice operating margin or EBITDA margin depending on how you look at expansion.

<Q – John Healy – Northcoast Research Partners LLC>: Okay. Simply great. And I guess, Derrek, I just wanted to ask that question. You said you guys like the macro right now, and you feel like that there's potential to be growing much faster. I guess, I just want to ask, what do you think is holding you back from doing that right now? Because I look at the PeopleReady business and is such a big percentage still of what you guys are doing, and that revenue levels been kind of steady for a while now. And I'm just trying to understand what needs to get to that upper single-digit growth rate that you think the company could deliver?

<A – Derrek Gafford – TrueBlue, Inc.>: Well, I think we're well on our way. If we take a look at where we've been that business has been in a period of low single-digit declines for a while. The bounce back this quarter was really nice, plus 2% versus being down minus 5% in Q1. I think we got the right things lined up really with PeopleReady to get it to where we want into that mid-to-upper single-digit organic growth.

Last year, there was some changes that were made to flatten out the org charts, to clarify roles particularly when it comes to sales and who's responsible for that. Those were good adjustments that we made last year. Coming into this year as far as what business development expectations are for our branch managers and how much time they should be in the field and those types of expectations have been well set. So, I think we've got things on the right track and that's really what's producing the churn.

Now particularly with the PeopleReady with our local accounts that was an area where we've been suffering a bit, we think it was mostly related to the business development activities at the branch level, maybe still relying on salespeople a little too much versus the branch manager being actively engaged as to the extent that we would like it. And I think the right adjustments have been made, John. I think we just need to follow the plan that's been laid out and execute. And well, I think we'll continue to see some more momentum in this revenue trend assuming a healthy economic environment which looks really good right now.

<Q – John Healy – Northcoast Research Partners LLC>: Great. I look forward to you guys. Thank you.

Operator: Our next question comes from the line of Mark Marcon with RW Baird. Your line is open.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Hi, good afternoon. First, I'd just like to say, Steve I really enjoyed working with you over the years and congratulations on the next stage in your career, and Patrick congratulations to you.

<A – Patrick Beharelle – TrueBlue, Inc.>: Thanks, Mark. Sure, appreciate that.

<A – Derrek Gafford – TrueBlue, Inc.>: Thank you, Mark.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Just with regards to, I guess, first from a leadership perspective, should we anticipate any sort of downturns in terms of areas of emphasis from a strategic or executional perspective or any sort of changes from that perspective?

<A – Patrick Beharelle – TrueBlue, Inc.>: Yeah, Mark. This is Patrick. Steve and I've really been working hand and glove for the last several years on developing our strategy in the areas that we're focused on. You're going to continue to see focus on the digitalization of our PeopleReady business rolling out our JobStack capabilities to clients and to workers. You'll continue to see a focus on building out our global capabilities in the RPO space. You continue to see a focus on operating more as one company with more cross-selling, we've had a lot of success with our cross-selling efforts. And so, we're making more investments in cross-selling across the organization and other technology investments and capabilities such as Affinix and some back office capabilities that we're investing in.

And so, from my perspective, it's going to look a lot like it has in the last couple of years in terms of areas of focus and one of the things Derrek mentioned earlier is really ramping up our ability to execute. As I think about PeopleReady in Q2, we're starting to see the fruits of some of the changes in investments that we made in Q4. We've added additional resources in our branches. We're putting more focus and accountability on those branches, and they're responding extremely. We flattened the organization of a bit. And so, I would expect that that the strategies that we've laid out, we're just going to continue to try to execute on those better.

Steve, I don't if you have anything you'd like to add to that or not?

<A – Steve Cooper – TrueBlue, Inc.>: No, I appreciate that. Mark, we've been anticipating this for a while and working towards it. And so, Patrick and I have been shoulder to shoulder along with Derrek in many of these strategies that Patrick has just mentioned here. And we haven't held back on what leadership team will support Patrick. So we have been very busy the last 18 months in adding strength to that layer. So when this day came, Patrick can be very focused on running the business rather than needing to change out the team below him. So I think that the team that got the results this quarter are in play. And I think the turn is nice as Derrek has mentioned in the results and we do believe that we've turned the corner and there should be good things to come from the strategies and initiatives that we put in play here.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Great. From the outside it seems pretty transparent in terms of both the way that leadership was evolving. So, again, congratulations on that. With regards to PeopleReady, so, as we think about the turn, you did provide some color in the deck with regards to headwinds on the energy side. I'm wondering how we should think about that, particularly from a margin perspective and how that will end up impacting this turn here?

<A – Derrek Gafford – TrueBlue, Inc.>: Yeah. Right. Thanks. Thanks for that question, Mark. Just to kind of recap what's in our deck, so everyone can know what we're referring to here. Our energy business on a quarterly basis, the run rate has been averaging about $10 million or so a quarter, which has been a slight headwind compared to last year. May I give you an example, Q3 of last year was $15 million. So, not too much of a headwind.

The thing that we wanted to call out in our deck, which we talked about last quarter was that the fourth quarter this year, it is a bigger headwind in energy. It's really the biggest one on a quarterly basis. So Q4 of 2017, the revenue was $26 million. So if we continue with this $10 million run rate, that'd be more like a $16 million headwind. And then after that, we really get into a more stabilized basis. The margin on that business is probably – it's a little bit lower than the overall PeopleReady business. The overall margin on that business is probably oh, good, maybe it's 7 or 8 points less on average than our blended margin at that PeopleReady. I'm talking about on a gross margin basis, so you could kind of flow that through from an operating margin perspective.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Okay, great. And then with regards to the turn that you're seeing in PeopleReady, outside of that energy business, and the build rate increases, would you anticipate that the build rates are going to increase at an even higher rate than 5% going forward or do you think that that's a good sustainable level at least for the next two quarters, three quarters?

<A – Derrek Gafford – TrueBlue, Inc.>: I think it's about right, Mark. If we were to break out where building pay rates have been, this year the dynamic there has been pretty consistent with what it has been the last couple of years. So I think that's about right in this environment. We've been through the vast majority of the minimum wage increases, which really put a bit more spike in our rates compared to the general industry. So I think, that's about right.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Okay, great. And then with regards to just the percentage of branches that are using JobStack the way that you would – that you think is optimal, can you give us an update there and take up there?

<A – Patrick Beharelle – TrueBlue, Inc.>: Yeah, Mark. This is Patrick. We've got about 20% to 25% of our branches where the fill percentage of jobs coming through JobStack is north of 50%. So if you're asking the question as we're starting to get to optimal, we've got about quarter of our branches that are there. So we've got a lot of upside, a lot of running room still with those other branches, and we've done a really good job of getting workers signed up. We're north of 70% on that. We've done a really good job of adding clients. We're over 7,000 now. We'll finish the year ahead of our 10,000 target.

I think the one area that we need to turn the crank a little bit better is the percentage of positions that are being filled by JobStack in some of those other branches. And so we're working really hard on that. And I expect by the end of the year, we'll see some significant improvement from where we're at today. So, I think the headline is, there's a lot of upside from our current position.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Can you talk a little bit about what sort of margin profile you're seeing in those 20% to 25% of the branches where you are getting that 50% fill rate?

<A – Patrick Beharelle – TrueBlue, Inc.>: I don't have those numbers in front of me. So we'll have to get back to you on that. I haven't consolidated those 20% to 25% of branches. So we'll have to get back to you on that.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: All right. And then on PeopleManagement, it sounds like even – please correct me if I'm wrong. But it sounds like ex-Amazon, we're still where the business is still a little bit softer. Is that true or did I hear it correctly?

<A – Derrek Gafford – TrueBlue, Inc.>: Yeah, that's right, Mark. So if you take a look at our Q2 results for PeopleManagement, I'm going to give you a couple of statistics here. Overall PeopleManagement for the quarter was down 7%. And in that 7%, there's about 5 points of headwind that's related to the PlaneTechs divestiture, it is down about 2 points. And then the guidance that we provided today for PeopleManagement for the third quarter, excluding PlaneTechs again, that divestiture, as well as that $8 million of headwind that I spoke about related to Amazon, we're expecting the business to be up about 1% to 4% in the third quarter.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: So it would actually be up 1% to 4% ex-PlaneTechs, ex-Amazon?

<A – Derrek Gafford – TrueBlue, Inc.>: Yeah, that's right. We had a few customers where the production volumes were just came in a bit softer of our existing clients than what we had expected here in the second quarter. The indication that we've got from those same clients are things getting a little bit back to normal. Plus, we had some nice wins here in the third quarter related to PeopleManagement, both the Staff Management and the SIMOS businesses, which will be coming on in Q3, which are helping that growth rate out a little bit more versus what we posted here for Q2.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Okay. And on PeopleManagement, when Amazon goes away, are you going to have anything in Canada left or how should we think of – or is there – are there any charges that we should anticipate?

<A – Patrick Beharelle – TrueBlue, Inc.>: This is Patrick. Related to Amazon, that's our last bit of business with them. Of course, we have other clients that we're serving in Canada. But from an Amazon perspective, that's the last bit of business we have with them.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Okay. So, I mean, no charges to anticipate or anything like that?

<A – Derrek Gafford – TrueBlue, Inc.>: No. It's a cost-plus model. So any charges that we are going to have will be picked up by the client.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Okay. And then on TMP, with that coming in, can you talk a little bit about the pipeline for RPO bids and how much does that open you up to not just UK, but European RPO bids?

<A – Patrick Beharelle – TrueBlue, Inc.>: Well, we're already starting to see the impact, in fact PeopleScout was just notified last week of a really nice win that is in Europe and Asia. And one of the things the client indicated to us in that decision was that the expanded capabilities that we had in Europe was a major part of that decision. We've also got over half a dozen of our existing clients, they're North American based, that we're in discussions with about including scope in Europe. So we're already seeing some significant near-term set of discussions.

In the mid- to longer-term, we expect to see increase in the number of invitations that we receive to compete on for global deals and also our win rate to go up, because one of the challenges we've had, Mark, is when we finished second in a lot of global deals where the client will say, gosh, we really liked your North American capabilities, your Australian capabilities, but you're just a little light on Europe. And so that had – we've been bridesmaid several times on those global opportunities. Now, this really should have an impact on our win rate going forward.

I think the other key point to make related to TMP is the employer branding capabilities. They're an organization that's known for employer branding. That's an area of opportunity for us to take those capabilities and incorporate those into our existing client base outside of Europe. And so, we think there's a really nice opportunity to get invited to more bids, to win more bids, and also with the employer branding capability, to offer some new services to our clients that we hadn't offered before.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Great. I've got two more questions, one just circling back to PeopleReady on construction, what are you seeing there?

<A – Derrek Gafford – TrueBlue, Inc.>: We saw a pick up a little bit, Mark. We were down about – let me look at the exact, give you the exact here, I was going to do it from the top of my head, but this is safe, just one second here. So for PeopleReady, construction right now is really our biggest headwind. It was down 8% in Q2 2018 versus same quarter a year ago, which is an improvement from being down 10% in Q1 and an improvement from being down 12% in Q4. So where we're starting to see more improvement is in the residential area, that's where we had some of the bigger headwinds really towards the tail end of last year. So we're starting to see more improvement there. And usually as we start to see more improvement on the residential areas, the commercial area starts to follow.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Okay. That's good to hear. So you're not seeing any signs of the California softness as it relates to resi?

<A – Derrek Gafford – TrueBlue, Inc.>: That's insignificant, nothing really noticeable at this point. Most of our work that we do in California, particularly when it comes to residential is, a lot of that's remodels. Our CLP business does a lot of ads, seem to be higher end remodels, some of the lower end residential development is not an area where we play in a lot in California.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: Great. And then, we've got a lot of moving pieces impacting onto the fourth quarter. I know you're not giving guidance for the fourth quarter, but just in terms of thinking through profitability from a seasonality perspective and typical flows, how should we think about the fourth quarter in terms of, like, puts and takes?

<A – Derrek Gafford – TrueBlue, Inc.>: Yeah. Well, I think as we think about, let's say, just we call the back-half of this year, some callouts just to keep in mind. Just in the third quarter this year, we're facing about a point of headwind, because we had some benefit from hurricanes in Q3 of last year. And then, as we go into the fourth quarter, really the two main things, we've called out pretty well here, which is the energy area, and Amazon. And I know you know these Mark, because you're looking at the deck, but I'll just guide everybody else to the back of our earnings release deck that provides more color on that.

I mean, those are really the two callout. Outside of that, from a year-over-year perspective, revenue-wise the underlying growth trends. I mean we're expecting those to be healthy. The gross margins, we've had some good success in lowering the cost of sales, we got sort of lot of programs focused on that. And we're still managing our SG&A tightly. We haven't got back to the single-digit growth yet, so we know that so we need to keep the SG&A at about the same rate or less growth than where revenue is, excluding the add-backs that we've talked about.

So that's how we're thinking about the back-half of this year, as we're thinking about 2019 and I can tell you that we're planning the business for healthy growth. We're planning on a growth year from a planning perspective. We're not giving guidance on this, but that's how we're thinking about. It's a healthy environment We've got PeopleReady turned the right way, exit this Amazon business, PeopleManagement we're expecting to be back in the growth on an organic basis excluding PlaneTechs in Q3. And the PeopleScout business is doing really well and we're really excited about the opportunities to get some of these multi-continent deal. So we're feeling pretty optimistic about 2019.

<Q – Mark Marcon – Robert W. Baird & Co., Inc.>: That's great to hear. Congrats again, Steve, and Patrick.

<A – Steve Cooper – TrueBlue, Inc.>: Thanks, Mark.

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

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

Well, we appreciate you joining us today. We're excited about these opportunities we have ahead and we look forward to updating in the next quarter.

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