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TrueBlue, Inc. (TBI)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Adrienne, and I will be your conference operator today. At this time, I would like to welcome everyone to the TrueBlue First Quarter 2020 Earnings Call. All lines are in a listen-only mode. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

Thank you. I would now like to turn the call over to your host, Derrek Gafford. Please go ahead, sir.

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

Good afternoon, everyone, and thank you for joining today's call. I am joined by our Chief Executive Officer, Patrick Beharelle.

Before we begin, I want to remind everyone that today's call and slide presentation contain several forward-looking statements, all of which are subject to risks and uncertainties, and we assume no obligation to update or revise any forward-looking statements. These risks and uncertainties, some of which are described in today's press release and in our SEC filings, could cause actual results to differ materially from those in our forward-looking statements.

We use non-GAAP measures when presenting our financial results. We encourage you to review the non-GAAP reconciliations in today's earnings release or at trueblue.com under the Investor Relations section for a complete understanding of these terms and their purpose.

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.

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

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Thank you, Derrek, and welcome to everyone to today's call. We appreciate you joining us this afternoon as we all navigate these unprecedented times. Our first quarter results are a tale of two quarters. Compared to our December exit rate, year-over-year revenue trends improved in January and February with particular improvement in our largest segment PeopleReady. However, those trends reversed course in March and the second half of March saw a significant drop in demand associated with government and societal actions to address the COVID-19 threat.

For the quarter, our total revenue was down 11% and we posted a net loss of $150 million or $4.04 per share which included a pre-tax noncash impairment charge of $175 million. Many of the customers we serve have been deemed essential and we continue to support these clients. We've seen increased demand from grocery and e-commerce retailers. On the other hand, many of the businesses we serve are completely shut down, which is significantly impacting the demand for our services. Examples include sports venues, automotive manufacturers and nonessential retailer operations.

In total, declining clients have outpaced growing clients and we expect this will be the case for some time. In response, we have taken decisive and significant actions that will reduce our operating expenses by approximately $100 million this year. To ensure we are well-positioned when business conditions improve, we continue to invest in client and candidate-facing technologies and are keeping our branch footprint fully intact.

Turning to our business segments, PeopleReady is a leading provider of on-demand labor and skilled trades in the North American industrial staffing market. PeopleReady's revenue was down 8% during the quarter, which was lower than our outlook of minus 7% to minus 4% due to the effect of COVID-19 late in the quarter.

PeopleManagement is a provider of contingent, onsite industrial staffing and commercial driving services in the North American industrial staffing market. Revenue was down 10% during the quarter, which was lower than our outlook of minus 5% to flat, also due to the effect of COVID-19 late in the quarter.

PeopleScout is a global leader in filling permanent positions through our recruitment process outsourcing and managed service provider offerings. Revenue was down 21% during the quarter, which was within our outlook of minus 26% to minus 18%, though results were adversely impacted by COVID-19 beginning in March.

Now I'd like to shift gears and talk in more detail about our operations and strategic focus in the wake of the COVID-19 crisis. The health and safety of both our employees and our clients remains front and center in everything we're doing right now. We implemented comprehensive measures across our brands to keep our workers and clients healthy and safe, including adherence to guidance from the CDC, World Health Organization, OSHA and other key authorities. We formed a specialized task force tracking the most up-to-date developments and safety standards as well as created an internal information hub with safety protocols, dashboards, FAQs and daily reporting by location on COVID-19 impact.

In addition to posting TrueBlue's action plan on our external websites, we are actively sharing information on how companies and workers can protect themselves via ongoing e-mails, social outreach, webinars and other digital communications. We are fully leveraging our JobStack app to help companies and workers connect safely through a digital environment and are testing and rolling out a new virtual onboarding capability to minimize in-person branch visits.

We are also leveraging our Affinix technology to enable companies to connect with permanent talent through virtual hiring and sourcing. Working closely with clients to enforce safety standards, we are supporting efforts in providing masks for associates, hand sanitizers, workplace disinfecting, social distancing and infrared temperature checks. We instruct all of our workers to stay home if they are not feeling well or have been exposed to COVID- 19.

Immediate notification and self-quarantine protocols are in place if a staff member, an associate or a client's employee is exposed to COVID-19. And our field safety specialists closely evaluate any assignments related to clean-up of potentially infectious job sites. To ensure business continuity and support for our clients who need workers for essential services, we set up a centralized branch support center and are ready to implement regional command centers as needed to serve as backup for our 600-plus branches. Our branches follow strict sanitation and social distancing guidelines.

In addition, across the TrueBlue organization, we suspended all international travel and restricted nonessential domestic travel for our employees and are providing remote work capabilities for our Tacoma and Chicago support centers as well as other locations. The progress we've made on our digital strategies is more important than ever to helping us serve our clients by connecting people with work. We filled 785,000 shifts via JobStack in Q1 2020, representing an all-time high digital fill rate of 51%. Our client users also hit all-time high of 23,500, up more than 50% compared to Q1 2019.

JobStack has the obvious advantage of allowing us to remotely dispatch workers straight from home to the job site. But it also has become a cornerstone to keep our contingent employees safe by providing routine and job-specific health and safety notifications. Throughout the current economic crisis and especially as the world begins to emerge, TrueBlue's underlying mission, connecting people with work, is as important as ever.

As we manage through this challenging time, I'd like to emphasize the following points. First, employee and client safety are our top priority. How we operate, and how we relate to workers and clients matters more than ever in a world where profit, principle and shared trust are inextricably linked. We will continue to work with stakeholders to ensure the strongest safety measures for all involved.

Second, through careful planning, we exited 2019 with no net debt, allowing us to enter this crisis from a position of considerable balance sheet strength.

Third, we have taken thoughtful cost management actions to preserve liquidity, which will continue to be a top priority this year.

Fourth, the sales and operations team have developed formal bounce-back strategies to ensure we are well-positioned when our economies begin their reopening efforts.

Finally, we have a deep leadership team that understands the key levers to flex the business based on economic conditions. Derrek and I both sat in CFO and CEO positions, respectively, during the last recession and are surrounded by a seasoned team of operating leaders.

I'll now pass the call over to Derrek who will share greater detail around our financial results.

Derrek L. Gafford

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

Thank you, Patrick. Total revenue for Q1 2020 was $494 million, or down 11% in comparison with our outlook for $503 million to $528 million. There are two stories in our first quarter results. The first is the story that covers the first two months with revenue for January down at 9% and February down 6% which was on track with our expectation. The total company revenue trend during these months was driven by PeopleReady, which posted a 7% decline in January and a 3% decline in February, with growth of 2% in the last week of February.

The second story is with the month of March, during which we experienced the swiftest revenue deceleration in the company's history as society sheltered itself from COVID-19 and businesses shuttered. For March as a whole, total revenue was down 16%. For the first three weeks of March for our staffing businesses, which make up 90% of total company revenue, were down approximately 6%. During the last week of March, revenue was down about 30%. Turning to April, staffing revenue for the first four weeks was down 41%. There are possible signs of stabilization with April weekly revenue results falling within a range of minus 43% to minus 38%, but it's admittedly hard to make a call on stabilization at this point.

We posted a net loss of $150 million or $4.04 per share, in comparison with our outlook of a loss of $0.07 to $0.00. Included in our results is a non-cash impairment charge of $175 million or $152 million net of tax, which translates to $4.08 per share. About $120 million of the pre-tax charge was in PeopleScout and $55 million in PeopleManagement. Adjusted net loss per share was $0.01, which is less than our outlook of net income per share of $0.04 to $0.11 as a result of revenue falling short of the midpoint of our revenue outlook.

Adjusted EBITDA was down 73%, primarily due to lower revenue and gross margin which in combination with the operating leverage in our business contributed to a drop in adjusted EBITDA margin of 210 basis points. It's also important to note that the sharp decline in profitability is also due to the fact that Q1 is our seasonally lowest revenue quarter. Consequently, the decline in revenue has a more pronounced impact on year-over-year profitability.

Gross margin of 25.5% was down 110 basis points. About 100 basis points of the decline came from our PeopleScout business due to a previously disclosed client headwind and overall volume declines which outpaced the timing of reductions to our recruiting staff. Our staffing business contributed 50 basis points of headwind from a change in revenue mix associated with larger declines in our higher margin local accounts in comparison with our lower margin national accounts. This was offset by 40 basis points of net benefit from lower Affordable Healthcare Act costs, which we do not expect to reoccur, which was somewhat offset by a workers' compensation benefit in Q1 2019 associated with prior insurance carriers.

SG&A expense improved by $11 million or by 8% compared to Q1 2019. We had an income tax benefit this quarter of 14% as compared to our expectation of income tax expense of 12% due to the pre-tax loss and permanent differences associated with certain aspects of the impairment charge.

Turning to our segments, PeopleReady, our largest segment, representing 63% of trailing 12-month revenue, saw an 8% decline in revenue and segment profit was down 33%. March revenue was down 14%. Revenue declined significantly during the last two weeks of March due to COVID-19 with revenues dropping 20% for the week ended March 22, 32% for the week ended March 29.

PeopleManagement, representing 27% of trailing 12-month revenue and 8% of segment profit, saw a 10% decline in revenue and segment profit was down 114%. March revenue was down 14%. Revenue declined significantly during the last two weeks of March due to COVID-19 with revenues dropping 15% for the week ended March 22 and 30% for the week ended March 29.

PeopleScout, representing 10% of trailing 12-month revenue and 25% of segment profit, saw a 21% decline in revenue and segment profit was down 76%. March revenue was down 28%. The decline in revenue for the quarter was a carryover from the trend in Q4 2019 associated with client losses and lower same-customer volume as well as the impact of COVID-19. As previously discussed, the client headwind created 8 percentage points of drag on revenue and 25 percentage points on segment profit. For more information on our revenue trends for the quarter as well as April, please refer to our earnings presentation filed today.

Now, let's turn to the balance sheet and cash flows. We entered 2020 from a position of strength given the fact that our balance sheet had zero net debt at the end of 2019. In March, we drew substantially all of the remaining availability on our $300 million revolving credit facility to further enhance our liquidity position.

At the end of Q1, we had to $265 million of cash on the balance sheet and total debt of $294 million. Our debt to capital ratio was 41% or 4% on a net debt basis and our total debt to adjusted EBITDA multiple stood at 3.0, which is higher than the ratio defined by our lending agreement which includes some different adjustments including the add back of stock-based compensation resulting in a ratio of 2.7.

While we experienced a significant decline in adjusted EBITDA this quarter, cash flow from operations increased by roughly 25% compared to Q1 last year due to the accounts receivable base deleveraging which will continue to be a source of capital with future revenue declines.

We dedicated $52 million of cash towards the repurchase of common stock in February; $12 million through open market purchases and $40 million through an accelerated share repurchase program or ASR. On February 28, we executed the ASR and $40 million of cash was provided to an investment bank. In return, $32 million of stock was delivered to the company at a price of $14.88 and these shares were removed from our outstanding share count, but the full weighted impact will not be present until Q2.

The remaining $8 million of stock will be delivered no later than July 2 and the total number of shares repurchased will be trued up based on the volume weighted average price over the four-month term of the agreement, less a discount. We do not plan to repurchase additional shares until market conditions improve.

Now, I'd like to take a few minutes to discuss our future outlook. Given the uncertainty of when societal and business restrictions will be lifted, we're not able to provide a customary outlook for the next quarter with an appropriate amount of precision. However, we are providing a robust assortment of historical and forward looking information to help investors form their own estimates, all of which can be found in the earnings presentation filed today.

I'll provide some highlights on this information starting with the top-line. TrueBlue revenue has historically fluctuated along with changes in gross domestic product. Regression analysis suggests that TrueBlue revenue would be down approximately 9% if GDP was flat and would decline approximately 7 percentage points for every additional point of year-over-year GDP decline. For example, if the year-over-year decline for GDP was 5% for a particular quarter, this would imply a decline in TrueBlue revenue of roughly 44%. It's important to note that these are year-over-year GDP rates, not seasonally adjusted annualized rates.

In addition to GDP, there are a multitude of variables that can impact the demand for our services. Consequently, we can't assure you these relationships will be indicative of future results. Also, there could be additional variation in our future results as the historical company results used in this analysis did not include periods with such swift and significant revenue declines that have occurred in the current environment. But we are using this analysis as a source of direction in our own planning and we have provided it with the hope that it is helpful.

As Patrick mentioned, we took swift and decisive action to reduce our expected operating expenses in 2020. Given the current environment, we chose to take significant action to quickly adjust the company to a new normal and reduce the risk of organizational fatigue that can ensue from round after round of cost cuts. We also attempted to be thoughtful in our actions to not only preserve our financial strength but also preserve our operational strength so that we are well-positioned when business conditions improve.

Based on these actions, we expect SG&A to be about $100 million less in 2020 in comparison with 2019, including a workforce reduction charge of $1 million in Q1 and about $8 million in Q2. All-in, this would produce a SG&A decrease of about 20% in 2020.

Turning to fiscal year 2020 gross margin, we expect a contraction of 180 basis points to 120 basis points. This gross margin headwind is associated with a mix shift in the PeopleReady business based on an assumption that our higher margin local account business will see bigger declines than the national account business. Pricing pressure will occur in our staffing businesses. Lower volume will occur in our PeopleScout business. And the fact that a previously disclosed customer headwind at PeopleScout will not anniversary itself until Q3.

For capital expenditures, we expect about $22 million for the full year. Please note that our outlook is net of $8 million in build-out costs for our Chicago headquarters that will be reimbursed by our landlord in 2020. Our outlook for weighted average shares outstanding for fiscal year 2020 is 35.7 million shares.

Turning to our tax rate for the year, we're not able to provide an effective income tax rate outlook due to uncertainty surrounding the amount of pre-tax income or loss we will incur. However, we have provided historical components of our tax rate in the earnings release deck filed today as well as a Q2 outlook for the other items I have covered.

This concludes our prepared remarks. Please open the call now for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question comes from the line of Henry Chien with BMO.

Henry Sou Chien
Analyst, BMO Capital Markets Corp.
Q

Hey, guys. Good afternoon. I was wondering if you could share a little bit about, in terms of the trends you're seeing in April, maybe by sector or by lines of business in terms of what's actually growing and what's stable and what's been declining. Thanks.

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

Hi, Henry. It's Derrek here. So, I would – I think probably the best place to go to talk about the trends is our PeopleReady business, which has the most breadth from a geographic perspective as well as an industry perspective. Take all the industries, you're going to find most all of the industries sitting somewhere between a 40% decline and a 55% decline.

Now, with that range, there's two standouts on both sides of the range. So, on the more severe side, anything that's hospitality-related, we're seeing much stronger declines there. So, for PeopleReady, that represents about 9% of the business. And with hospitality-related businesses, we're seeing a decline of about 80%.

On the other side of the spectrum, the standout from a positive perspective is the retail industry. That decline is about 10%. It makes up about 7% of PeopleReady's business and really what's powering that is retail. So, an influx of work that's been occurring related to retail grocery, stocking shelves, some related distribution and such.

Henry Sou Chien
Analyst, BMO Capital Markets Corp.
Q

Got it. Okay. And in terms of like the government programs, whether it's like the PPE or – PPP, sorry, or any other, the stimulus programs in the CARES Act, have you seen any impact on any of your clients or your businesses?

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

Well, we've such a wide variety of customers there. Certainly...

Henry Sou Chien
Analyst, BMO Capital Markets Corp.
Q

Yeah.

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

...if we stand all the way back though, we're very pleased to see what's happening with PPP for our PeopleReady business since about 60% of our business we categorize as local accounts, meaning, that they're not national accounts which the preponderance of those are small to medium sized businesses. So, those actions we're taking

– that have been taken we think are really positive to help clearly that business segment which is something that was arguably not enough of during the last recession.

Henry Sou Chien
Analyst, BMO Capital Markets Corp.
Q

Yeah.

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

Now, another question you might have on your minds is if there's anything on that that's a benefit to TrueBlue and really the most the most notable thing is the deferral of payroll taxes, specifically FICA and Medicare. So, those taxes can be deferred, half of it until the end of 2021, half of it until the end of 2022, and that would provide us with about an additional $40 million to $50 million of cash flow benefit this year.

Henry Sou Chien
Analyst, BMO Capital Markets Corp.
Q

Got it. Okay. All right. Great. Yeah, I hope – and I hope you guys are all safe. Thanks for taking the questions.

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

Thanks, Henry. Stay safe.

Henry Sou Chien
Analyst, BMO Capital Markets Corp.
Q

Thanks.

Operator: The next question comes from the line of Josh Vogel with Sidoti [ph] Corporation (00:26:36).

Josh Vogel
Analyst, Sidoti & Co. LLC
Q

Thank you. Good evening, Derrek and Patrick. Hope you and your families are doing well. I guess, my first question, outside of the PPP, are there any other government programs tied to the CARES Act that you have applied or plan to apply to?

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

Hi, Josh. Derrek here. Yeah, there were a couple that we're looking at. There will be a small amount of benefit that we get in Canada related to the retention of some of our workers there. There's also a little bit of benefit that will be coming related to any payments we've made to employees that have been terminated, so related to the severance and we provided some additional healthcare to them. But those will be relatively small in comparison with the $40 million to $50 million of deferral that I just mentioned on the payroll taxes. Also, those items – there won't be items that will have an impact we think on the adjusted EBITDA or EPS that you all track and that we have traditionally guided to. We'll consider those more as one-time benefits most likely, so those are likely to be excluded from our adjusted calculations, but would certainly provide an additional bit of liquidity bump.

Josh Vogel
Analyst, Sidoti & Co. LLC
Q

Okay. And when – I know it's still early, but when we do get back to whatever the new normal is, I was just curious, over the past month or so, have you been in negotiations with any clients that have been asking for any more concessions or contract negotiations as they try to navigate on their ends?

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

Well, I'll let Patrick take that one and then I'll provide a little color in the guidance that we've given around gross margin for the year.

A. Patrick Beharelle
Director & Chief Executive Officer, TrueBlue, Inc.
A

Hey, Josh. Thanks for the question. Where we've seen most of the requests coming from clients is largely centered around payment terms, where a handful of our clients have come to us and said, we like to extend out our payment terms. We've seen a little bit of pricing pressure in some cases, particularly on some new deals. Partially offsetting that, we're also seeing some new types of business that we hadn't seen before. As an example, we just won a deal this week earlier today that help build ventilators. We won a deal last week to help a retailer that's recalling out of their out-of-season retail product that's been sitting in their empty stores and it's out of season now.

So, certainly, the number of clients that have pulled back has outweighed the number of clients that are expanding, but we are seeing some changes in how clients are engaging us for different types of work than we've done before. But to get to the heart of your question, payment terms has been a big part of it and then, as Derrek mentioned in his opening remarks, we've had some mix shifts where some of our higher margin businesses have been hit harder than some of our low margin businesses. I think, Derrek, you wanted to add a few comments as well.

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

Yeah. It's not directly what you asked, Josh, but I think it's in the spirit of it as far as our expectations around gross margin, which would include this pricing piece. So, for the year, if you take a look at the midpoint of the gross margin outlook that we provided for the year in the back of our earnings deck, it's about 150 basis points of compression. About 50 basis points of that is from pricing, not because we've had any large customers coming in and asking us for concessions. That's more of what we would expect to see though from new business that comes on. Some of that being national customers, but a good chunk of that being in our small to medium sized business.

So, you've got 50 basis points coming from pricing, got about 50 basis points coming from mix. This is mix on the staffing side of the business. We are anticipating that small to medium sized businesses will have bigger declines than our national account business, and that's small to medium sized business is more profitable for us. And then about 50 basis points coming from RPO, part of it being from volume, part of it being from a large customer that we've called out last year as a headwind that would continue for a portion of this year and then also on our gross margin. Our severance related to recruiters, that – the cost of those salaries is reported in cost of sales and so the severance will run to that line item as well.

Josh Vogel
Analyst, Sidoti & Co. LLC
Q

All right. That's really helpful. Thank you. Understanding that capital preservation is most important today, but when the economy reopens and it gets back to business as usual, just curious about your appetite for acquisitions now that market values have been somewhat reset. Is that something that's still a strategy?

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

It's not an area where we are pursuing any specific targets right now. So, capital preservations top of our list. We're not seeking to do any acquisitions at this point of the cycle. Now, as we get further along in this cycle, we do think that this recession is going to take a toll on some other staffing companies, particularly smaller and mid sized companies, and we're one of the largest industrial operators in the country but we only have about 4% of the market share.

So, there could be some deals that come along that are bargain in nature. And if they were targets that we could just integrate into our current systems, meaning very like in similar businesses where we could get some additional operating synergies out of it, we would take a look at those, but only when we can see our own capital continuing g to hold up well, be confident that things are getting ready to return and we could get some sizable synergies out of those deals.

Josh Vogel
Analyst, Sidoti & Co. LLC
Q

Okay. Great. And thank you for all the information in the page 12 of the slide presentation. It's really helpful just for directional commentary. So, when we do look at the cost savings and it's all in the SG&A line and you think it will be – you said it was about – you think $100 million lower year-over-year in 2019. Does that include that $8 million employee termination charge in Q2?

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

Yeah. That's right. So, the $100 million approximation, that's net of any of the workforce reduction reserves that we've taken, which are – it's largely severance and healthcare benefits. We've offered some additional benefits to folks that we've had to terminate given the circumstances of the job market and the economy. So, that's a net number.

Josh Vogel
Analyst, Sidoti & Co. LLC
Q

Okay. Great. Well, thank you for taking my questions. Stay safe, guys.

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

Thanks, Josh.

Operator: [Operator Instructions] The next question comes from the line of John Healy with Northcoast Research.

John Healy
Analyst, Northcoast Research Partners LLC
Q

Thank you. Guys, I wanted to ask a little bit about the year-over-year GDP growth that you guys highlighted and the implied growth of the company. Can you maybe just walk through how you feel today's business might compare to those statistics? And the reason I asked that is just because I'm sure this has kind of been revenue performance in the past. So, I'm just trying to think about maybe some puts and takes in terms of what to expect versus kind of that regression analysis. And then, is that the traditional staffing business only or kind of some of these solutions businesses and things like that also factored in there?

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

Hi, John. Thanks for the question. So, that is – that's TrueBlue all-in numbers over the last 10 years by quarter. So, that's what we've taken and what we have done the correlation analysis against with quarterly GDP statistics. So, that does include anything that we've acquired. It includes our PeopleManagement and PeopleScout business as well. So, it's an all-in company statistic over the last 10 years.

John Healy
Analyst, Northcoast Research Partners LLC
Q

Got you. No, that makes sense. And then, just wanted to ask just about end-market exposure a little bit. You guys called out the sports leagues. I was kind of thinking about sports, concerts, conventions, trade shows, those types of businesses. Is there a way to think about the magnitude that represents of revenues and any sort of visibility you have there or at least how you're planning that business potentially for a potential restart?

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

Yeah. So, as a percentage of revenue, that business in our PeopleReady business runs about 9%. Let me get you that for the all-in company number here. So, all-in company, the hospitality for us runs about 7% to 8%. So, anything that's sports venue related, anything that's hotel related, banquet related, all fits into that business. So, our business, as you know, John, the visibility is very low. And when it comes to how the hospitality industry and travel industry is going to bounce back, that's just something that we're not sure of. So, we're setting our expectations relatively low there. As discussed with a question that came earlier here today, around that part of our business, it's – it was down 80% in April. So, we're just going to continue to have low expectations on that portion of the business until we see how things play out here for a while.

John Healy
Analyst, Northcoast Research Partners LLC
Q

Sure. Makes sense. And then, just on the $100 million of cost savings, I was just trying to think about how much of that is reduction efforts and how much of that is the SG&A falloff associated with the lower revenue. So, how much should we think about kind of structural cost savings versus cost savings that will come back when revenues – flip when revenues start to reaccelerate? How should we think about kind of some of the bucketing there?

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

Yeah. Thanks for the question. So, I'll try to be really careful in this explanation just to help ensure that nothing gets misunderstood because in the strictest sense, all of those costs are variable since we cut them. But I think really the spirit of your conversation is, well, how much was that a managed cost reduction and how much just comes off because of the way the business is built with incentive programs and such where those costs just fall out of the P&L kind of on their own without a lot of management oversight.

So, the $100 million, I'd say about a quarter of that is just really strict variable cost that just kind of flex up and down based off of volume. Most of those items are around certain incentive programs, particularly in our PeopleReady business, around sales commissions and the bonuses related to our branches. The other 75% is really those are all costs that have been actively managed down.

The second part of your question is, well, how will those things come back, how much will come back. And we'll just have to see. There are some things in those costs that we've managed down like pay cuts. We're not giving raises. We've cut the match contribution to our deferred comp and 401(k) programs, those sort of things that will need to come back in time. Now, there's also though a lot that is personnel related. We are running even some of our PeopleReady branches less than our previous minimum of three, JobStack has helped enable that.

So, I think when it all shakes out, I think there's an opportunity for some of these costs that we've taken out to potentially stay out of the business, one, because this current environment has certainly opened up our minds and the minds of many others on challenging some assumptions that we've taken and how business should be ran. It's creating some new thought leadership about how we go about running the business. And certainly, we're going to continue investing in technology, which could also help reduce some of those costs. So, I think we'll just need to kind of see how things play out this year, John, to get a better sense of that, but that's how we're thinking about it.

John Healy
Analyst, Northcoast Research Partners LLC

Q

Great. Thank you, guys, and I hope you stay safe out there.

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

A

Thanks, John.

A. Patrick Beharelle
Director & Chief Executive Officer, TrueBlue, Inc.

A

Hey, John. This is Patrick. I just wanted to add a couple points of color to some of the comments that Derrek has made. I think it's worth emphasizing that characterizing the nature of the cost cuts, one of the things we didn't do is go on a big branch closings exercise. If you look back to the last recession, a big part of our cost cutting efforts were to close branches. And one of the learnings we had from that is, once we closed a branch it was very hard to reopen and become profitable. And so, we ended up losing the preponderance of that revenue when we had closed a branch and never really got it back.

And so, this time as we were thinking about what cost cuts we would make, we were keeping a very close eye on making sure we positioned ourselves to have a strong bounce back to take advantage of an increase in demand. And so, we didn't close any branches as part of this effort. And we've worked with the sales and marketing teams to put together formal programs around targeting those opportunities as they're likely to be quite large coming out of this. As an example, a lot of the retailers and restaurants and other businesses that engage consumers in their facilities, they're going to have reconfigure those stores or those restaurants to have more social distancing. They're going to need people to help them do that.

That deal, I mentioned earlier, that we had won around merchandise having to be moved because it's out of season, so there's a pretty large recall opportunity in the retail space for out-of-season product. We're tracking our competitors very closely and looking for branch closings whether it's a local, small mom-and-pop provider or a large national, I mean, we're going to target their client base where others are closing branches. And so, I think it's important to note a big part of our strategy wasn't we'll close a bunch of branches to save money. In fact, we think there's an opportunity with some of the things I just mentioned to have a pretty strong bounce-back.

John Healy
Analyst, Northcoast Research Partners LLC
Q

Great. Thank you, guys.

Operator: [Operator Instructions] The next question comes from the line of Kevin McVeigh with Credit Suisse.

Kevin McVeigh
Analyst, Credit Suisse Securities (USA) LLC
Q

Great. Thanks. Hey, very, very hopeful disclosures. Obviously, in pretty uncertain times. Hey, Derrek, I wonder, can you just remind us in addition to kind of hospitality at 8% of revenue is it just broad mix across the other end markets that you're serving today?

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

Yeah. Are you, look, are you asking for, like, our mix of business across...

[indiscernible] (00:42:59)

Kevin McVeigh
Analyst, Credit Suisse Securities (USA) LLC
Q

Yeah. And then just if you could tie into that maybe what the current kind of national account versus local account mix looks like as well, just broad number?

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

Yeah. So let's hit the – so what we're talking about right now is our PeopleReady business on national versus local.

Kevin McVeigh
Analyst, Credit Suisse Securities (USA) LLC
Q

Yeah.

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

So we run about 60% of our business there is on the local side and about 40% of that is on the national side. 10 points of those 40 that I have put in there is renewable energy and industrial plant shutdowns. Not all of them are technically national types of customers. But they do tend to be larger projects, so I'll throw it into that category for purposes of this discussion.

And if we go down and talk about our mix of business, so this is all in for the company. We have our renewable energy and industrial business which is kind of construction-related at 7%. Our construction excluding that energy and industrial businesses is 13%, manufacturing 25%, transportation 20%, retail 12%, general services 10%, hospitality 8%, and the infamous other category at 6%.

Kevin McVeigh
Analyst, Credit Suisse Securities (USA) LLC

Q

Super helpful. And then – and again I thought the slide on the selected outlook is really helpful. To be clear on that, are you kind of leaning towards one way or the other in terms of your GDP estimates if you're thinking about kind of Q2 and then over the balance of the year?

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

A

I'm sorry. You cut out right there at the end, Kevin. Could you ask that last part one more time?

Kevin McVeigh
Analyst, Credit Suisse Securities (USA) LLC

Q

Just the year-on-year growth you've got a lot of sensitivity which is helpful. Are you leaning kind of one way or the other based on – what's that $100 million of cost change based on? What type of GDP decline?

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

A

Yeah. So when we're talking about the revenue outlook, we're using a basket of GDP, different GDP estimates that's basically a year-over-year GDP decline of 4%. Now when we take that basket and we look at it by quarter, at least here for the second quarter what that would suggest are our trends are trending below what that would suggest. However, we've planned our business with these cost cuts and other moves around a higher decline than what those – that GDP would suggest. We'll see that might change as we move either to the quarter or we get into the back half of the year. But 4% is generally how a dollar decline is how we plan the business.

Kevin McVeigh
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. And then one last one if I could. Are there any kind of areas maybe in Washington state or anything like that where you're starting to see some recovery? Or is there anything you'd call out from kind of a behavioral perspective amongst your clients?

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

A

I'll let Patrick take that one.

Kevin McVeigh
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Hey, Patrick.

A. Patrick Beharelle
Director & Chief Executive Officer, TrueBlue, Inc.

A

Hey. I think it's too early to tell at this point. There have been, as I mentioned earlier, a few wins that have happened. From an industry perspective, we've seen a subset of our retailers. From an auto perspective, a lot of the auto suppliers that we support shutdown in late March and they're coming back in a couple of weeks, several of them that are reopening. So from an industry perspective, it's all over the place. From a geographic perspective, I just think it's too early to tell at this point, the reopening efforts in Georgia and a few other places. There is a few signs of life that weren't there couple of weeks earlier in terms of volume coming through. But headline is I think it's too early to draw any big conclusions.

Kevin McVeigh

Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you very much.

Operator: [Operator Instructions] We have a question from the line of Andre Childress with Baird.

Andre Childress

Analyst, Baird

Q

Hey. This is Andre Childress calling in for Mark Marcon. I was just wondering if you could potentially provide some color on what's happening to collections on receivables and DSO specifically from, like, smaller clients and what you're seeing with the smaller client's ability to pay?

Derrek L. Gafford

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

A

Sure. Yeah. Thanks for that question. Well, I think, it's too soon to tell so far. If we just take a look at where Q1 was, our days sales outstanding was down one day. So I think there is risk that that could extend itself certainly during this recession, that's what we saw during the last recession.

Now that said, we've taken a very aggressive stance on this. When it comes to managing our receivables, we have about 25 pocket meetings every month. We have implemented a very robust dashboard and reporting system that unifies all of our accounts receivable into a database that's used for a variety of different metrics. We were working on that last year and it just couldn't have come at a better time than right now.

We've also changed a lot of our incentive programs. Our PeopleReady branches, they get charged interest now on their accounts receivable. So when it comes to our local accounts, they are incentive [ph] big (00:49:23) one because their bonuses are based on the performance of that branch, but also as the receivable balance gets bigger or more aged or they're charged an interest rate on that. We've also made changes to some of our compensation programs when it comes to sales folks with a bad debt will also count in the calculation.

So I think where we stand today as we take a look at managing our receivable portfolio during a recession, I think the company is in the best position it's ever been as far as its strategies and how to approach that. That said, this is a recession and people will pay slower. So we haven't seen any signs of that deteriorating yet. But I think we're just going to need to see how that plays out and it will continue to be a risk I think until things start to turn.

Andre Childress

Analyst, Baird

Q

No. Thank you very much. That's very helpful. And obviously, it's pretty evident that demand is diminishing but have you seen anything on the supply side of labor?

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

A

I'll let Patrick take that one.

A. Patrick Beharelle
Director & Chief Executive Officer, TrueBlue, Inc.

A

Yeah, Andre. Well, it's a mixed story. As you might imagine, with 30 million unemployed people or, in fact, people filing for unemployment, there's a lot of folks that are [ph] looking (00:50:39) for work. On the other hand, the programs that have put in place to help the unemployed, in some cases, folks can stay home and make more than they would pursue in some of our lower-end job opportunities. And so, it's a little bit of a mix. Certainly, net-net, there was a supply/demand imbalance prior to COVID where there just wasn't enough supply and a lot of demand. I'd say it's the other situation now where there's certainly more supply than there is demand right now.

Andre Childress
Analyst, Baird

Q

Yeah. No. And that's perfect. And it kind of teed out the next question. I was talking about CARES Act and obviously the additional unemployment benefits that were given to each state. How are you guys really – you kind of touched on it, but how are you guys really thinking about that going forward as the demand normalizes? Are you expecting that with some of the more minimal wage and part-time work that you're going to see an impact – a negative impact of people not wanting to return to work because of the additional benefits?

A. Patrick Beharelle
Director & Chief Executive Officer, TrueBlue, Inc.

A

Well, I don't think there's much of a risk for a full-time staff. But for our contingent workers, certainly there's – we've seen some of that already. But I think it's also fair to say that there's more than enough supply at this point. We're not having a situation where jobs are going unfilled because we don't have enough workers, which was the case before COVID. So I don't think that's a particularly high concern at a macro level. Certainly, individual people are making decisions to stay home because they, in some cases, make more money that way. But from a macro perspective and our overall business, I don't think that's going to be a headwind for us.

Andre Childress
Analyst, Baird

Q

All right. Sounds good. Thank you very much.

Operator: [Operator Instructions] And there are no further questions. I will turn over to Patrick Beharelle.

A. Patrick Beharelle
Director & Chief Executive Officer, TrueBlue, Inc.

All right. Thank you, operator. I'd like to just take a moment to say how incredibly proud I am of TrueBlue's employees and our associates as to how they've risen to the challenge so admirably during the pandemic. They've just done a great job and I couldn't be prouder. I appreciate you all listening to our first quarter earnings call. We look forward to chatting again next quarter. Have a great week everyone, and please be sure to stay safe. Thank you.

Operator: This concludes today's TrueBlue first quarter 2020 earnings call. You may now disconnect.