

27-Jul-2020

TrueBlue, Inc. (TBI)

Q2 2020 Earnings Call

CORPORATE PARTICIPANTS

Derrek L. Gafford

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

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

OTHER PARTICIPANTS

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Josh Vogel

Analyst, Sidoti & Co.
LLC

Mark Steven Marcon

Analyst, Robert W. Baird & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the TrueBlue Second Quarter 2020 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Derrek Gafford. Please go ahead.

Derrek L. Gafford

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

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

Before we begin, I want to remind everyone that today's call and slide presentation contains 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, everyone, to today's call. We appreciate you joining us this afternoon as we navigate these unpredictable times. I want to thank our employees, associates and clients for their outstanding efforts to safely serve the needs of our communities and essential businesses over the past several months. We will continue to face revenue challenges until the economic recovery from COVID-19 gains greater momentum and clients are more fully back on their feet. Our actions to reduce expenses are paying off while allowing us to help maintain our profitability and balance sheet strength.

Turning to our second quarter results, we experienced a significant decline in the demand for our services during the quarter. Total revenue was down 39% and we posted a net loss of \$8 million or \$0.23 per share. We saw moderate demand improvement toward the end of the quarter, which continued into July. In light of these trends, we expect the second quarter to be our trough, though full recovery will take time and the pace of recovery may vary by segment.

On that note, let's turn to our segment results. PeopleReady is a leading provider of on-demand labor and skilled trades in the North American industrial staffing market. PeopleReady's revenue was down 43% during the quarter and we saw modest intra-quarter improvement with revenue down 39% in June versus down 46% in April.

PeopleManagement is a provider of contingent, onsite industrial staffing and commercial driving services in the North American industrial staffing market. Revenue for PeopleManagement was down 23% during the quarter and snapped back well as the quarter progressed with the top line down 16% in June versus down 30% in April.

In comparing PeopleReady and PeopleManagement's performance, there are two key points to note. First is client mix. PeopleReady has a higher exposure to hard-hit sectors such as hospitality and construction whereas PeopleManagement's client mix tilts more favorably, supporting e-commerce supply chains, for instance.

Second is an outsourced versus supplemental dynamic. The essence of a typical PeopleManagement engagement is supplying an outsourced workforce that involves multiyear, multi-million-dollar onsite relationships. These types of client engagements tend not to be impacted as much as PeopleReady's typical engagement, which involves supplying supplemental labor with shorter duration assignments. We saw this dynamic in the previous recession as well.

Turning to our last segment, PeopleScout is a global leader in filling permanent positions through our recruitment process outsourcing and managed service provider offerings. Revenue was down 53% during the quarter. PeopleScout's results were particularly impacted by exposure to large travel and leisure clients.

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. Last quarter, we talked about the comprehensive measures implemented across our brands to keep our workers and clients healthy and safe, including adherence to guidelines from the CDC, WHO, OSHA and other key authorities. The good news is that these plans are working. I won't go into all the detail on this call, but here are a few highlights.

First, TrueBlue is providing masks for all its staff and associates. Since the start of the crisis, we've distributed approximately 120,000 masks across our staffing range. Second, we have symptom checks before entering the building at all of our onsite locations and we've distributed over 600 infrared thermometers for branch offices and jobsites that requested or required them. Third, as in any crisis, communications is essential. We've established a resource center for staff and safety specialists regularly meet with operational teams and clients to discuss the latest guidelines. Fourth, we're creatively adapting the way we run the business, including the introduction of drive-in job fairs and supporting our corporate staff so they can work from home.

Turning to our key initiatives, the progress we've made on our digital strategies is more important than ever is helping us serve our clients by connecting people with work. We've filled 551,000 shifts via JobStack in Q2 2020, representing an all-time high digital fill rate of 53%.

Our client user count ended the quarter at 24,300, up 38% versus Q2 2019. JobStack has the obvious advantage of allowing us to remotely dispatch workers straight from home to the jobsite, but has also become a cornerstone to keep our contingent employees safe by providing routine and job-specific health and safety notifications.

The other initiative we've been working on is digital onboarding, which allows associates to complete their application entirely on their smartphone rather than physically going into a branch office. This new technology has been deployed in all 50 states, and early results are favorable. Digital onboarding has resulted in PeopleReady cutting the median time to complete an application in half. And not surprisingly, we're seeing substantially higher percentages of workers completing the hiring process and being put to work. It's still early days for digital onboarding and we'll have more to share in coming months.

Last quarter, I mentioned that our sales and operations teams were developing formal bounce-back strategies to ensure we are well-positioned when our economies begin their reopening efforts. And I'd like to take another minute to share a few highlights.

At PeopleReady, we're focusing our sales efforts on high-need areas such as reconfigurations for social distancing and change-outs for out-of-season merchandise. We've won several new client engagements from these efforts. We've also implemented centralized tracking of competitor closures so we can target customers who need a new supplier of labor. In addition, we're working on having a broader worker pool as digital onboarding becomes a reality.

At PeopleManagement, we're targeting essential manufacturers and leveraging our strength in e-commerce. These are verticals that have held up well relative to the decline in non-essential goods at traditional bricks-and-mortar retailers. At the same time, we're also focused on consolidating client wallet share since consolidation brings natural economies of scale.

Finally, at PeopleScout, we're supporting clients that laid off their in-house recruitment teams and have had some recent successes focused on project hiring.

In closing, I'll remind everyone that even if the COVID-19 pandemic and economic crisis have forced everyone to rethink the way they do business, our underlying mission here at TrueBlue remains the same. Connecting people with work is more important than ever. We remain dedicated to the health and safety of both our employees and

our clients, we're committed to our digital strategies and we're making choices to preserve and enhance the long-term strength of our operations.

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 Q2 2020 was \$359 million, representing a decline of 39%. We posted a net loss of \$8 million or \$0.23 per share and adjusted net loss of \$4 million or \$0.12 per share. Adjusted EBITDA was a loss of \$5 million, down from a profit of \$34 million in Q2 2019, primarily due to lower revenue and gross margin.

Gross margin of 23.2% was down 340 basis points. PeopleScout contributed 240 basis points of compression, with 80 basis points from severance and 160 basis points from client mix and lower volume. Our staffing businesses contributed another 100 basis points of compression from unfavorable mix and from pricing.

While bill rate inflation was consistent with our trend over the last couple of quarters, we saw an increase in pay rates that were necessary to attract associates given COVID-19 health concerns and supplemental federal unemployment benefits. We do not expect gross margin compression in the back half of 2020 to be as pronounced as it was in Q2, which I will discuss more in my future outlook commentary.

Turning to SG&A. I'm pleased to report that our cost management strategies are on track. The quick actions we took in March reduced expense by \$29 million or by 23% compared to Q2 2019. We had an income tax benefit this quarter of \$13 million, which equates to a 62% effective rate on our pre-tax loss of \$22 million. Given our losses this year, we expect our income tax benefit rate to stay elevated this year due to the semi-fixed nature of Work Opportunity Tax Credits and the CARES Act, which allows us to carry back pre-tax losses to periods when the federal income tax rate was 35%.

Beginning in Q2 2020, we will not be making any adjustment to the GAAP tax rate in our adjusted net income calculation until our profitability rises to a more substantial level. Additional information on the components of our effective tax rate is available in our 10-Q filed today.

Turning to our segments. PeopleReady, our largest segment representing 62% the trailing 12 months revenue and 71% of segment profit, saw a 43% decline in revenue, and segment profit was down 97%. We did see modest intra-quarter improvement with June revenue down 39% compared to 46% in April. For the first three weeks in July, PeopleReady was down 31% or 33% excluding the benefit from 4th of July falling on Saturday this year versus Thursday last year. We are cautiously optimistic that our revenue trends for our staffing businesses will continue to improve. However, we recognize the rising number of COVID-19 cases and the potential negative business impacts from corrective actions to reverse these trends.

On a positive note, we believe that there could be upside to the demand for our services once the Paycheck Protection Program loan forgiveness incentive, which is available to small businesses for retaining employees, runs its course.

PeopleManagement, representing 28% the trailing 12 months revenue and 9% of segment profit, saw a 23% decline in revenue, and segment profit was down 56%. PeopleManagement experienced encouraging intra-quarter improvement with June revenue down 15% compared to 30% in April. Month-to-date for July, PeopleManagement was down 11% or 12% excluding the timing benefit from the 4th of July.

PeopleScout, representing 10% the trailing 12 month revenue and 20% of segment profit, saw a 53% decline in revenue, and segment profit was down 125%. Intra-quarter revenue declines were similar to the decline for the quarter. As Patrick noted, PeopleScout results were adversely impacted by exposure to travel and leisure clients, which made up roughly 30% of the prior year mix, and revenue for this vertical was down 80% year-over-year.

Now let's turn to the balance sheet and cash flows. Cash flow from operations was \$103 million, which was higher than Q2 last year of \$37 million due to the deleveraging of accounts receivable. At the end of Q2 2020, our cash exceeded our debt by \$47 million compared to our debt exceeding our cash by \$29 million at the end of Q1 this year.

For Q2, our total debt-to-capital ratio was 10% and our total debt to trailing 12-month adjusted EBITDA multiple stood at 0.8. While we would have been in compliance with our prior banking covenants at the end of Q2, we thought it was prudent to amend the covenants to provide additional flexibility given the amount of economic uncertainty. Under our recently completed amendment, our lenders agreed to suspend testing of our debt-to-EBITDA ratio and fixed charge coverage ratio through June 27, 2021. These covenants have been temporarily replaced with a minimum asset coverage ratio, minimum liquidity calculation and minimum EBITDA amounts. The specific calculations for these covenants can be found in the 8-K filed on June 26 and our Q2 covenant calculations can be found in the 10-Q filed today.

A couple of last thoughts on the balance sheet and capital return. With an adequate supply of liquidity in the banking system and our covenant negotiations behind us, we plan to run the company with about \$30 million of cash and apply excess cash towards debt. Also, as a reminder, we executed \$52 million of share repurchases in Q1 prior to the COVID-19 impact. We do not plan to repurchase additional shares until economic conditions improve.

Now I'd like to take a few minutes to discuss our future outlook. Due to the continuing uncertainty surrounding COVID-19 and its impact on the business environment, we are not providing customary guidance. However, the company is providing certain forward-looking information to help investors form their own estimates, which can be found in the quarterly earnings presentation filed today.

I'll provide some highlights on this information. Commencing in March, we took swift action to reduce operating expense in 2020. Our cost management strategies are on track and we expect expense to be down \$90 million to \$100 million in comparison with 2019. All in, this would produce a decrease in SG&A expense of about 20% in 2020.

As noted in our Q2 results, we consider any government expense subsidies related to COVID-19 to be non-core to our performance and we will continue to exclude these amounts from our adjusted net income and adjusted EBITDA calculations. Please see the earnings release deck filed today for additional information on the full year and Q3 outlook for this item as well as other outlook items discussed today.

Turning to fiscal year 2020 gross margin, we expect a contraction of 200 basis points to 140 basis points. This implies that we expect less contraction for the remainder of the year in comparison with Q2 due to favorable mix, the absence of severance, the anniversary in Q3 of the loss of a highly profitable PeopleScout client and less recruiting staff in our PeopleScout business, given current revenue volume.

For capital expenditures, we expect about \$22 million for the full year, which is net of \$4 million in build-out costs for our Chicago headquarters that are to be reimbursed by our landlord in 2020. Our outlook for weighted average shares outstanding for fiscal year 2020 on an anti-dilutive basis is 35.3 million. We are providing shares on an anti-dilutive basis since the non-cash goodwill and intangible asset impairment charge we took in Q1 this year will more than offset any profits we post in 2020.

In conclusion, I'd like to echo Patrick by offering my thanks to our employees and associates for all of their outstanding efforts during this challenging time. We've taken the right actions to adjust our costs while preserving our operational strength and technology strategies to ensure we are prepared to bounce back strong as the economy recovers.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from Jeff Silber with BMO Capital Markets. Please go ahead.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Q

Thank you so much. I appreciate the framework that you gave in terms of your outlook. But looking last quarter, I believe you gave us some information regarding potential revenue changes based on potential changes in GDP. Does that framework still hold? Have there been any changes?

Derrek L. Gafford

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

A

Hi, Jeff. Hey, thanks for the question on that. What we found is and we thought might be the case is that in the history that we were looking at, we didn't have any at least much at all of this type of significant revenue decline in the regression analysis that we did. So, if you'd applied that to most GDP estimates, it would have put you in a range of a revenue decline of about 60%, which is of course significantly more than the 39% that we posted this quarter. So, I think you got to treat that with some skepticism. But as a directional estimate, you could probably still use it, but maybe knock down the impact by a third, and that would be one guidepost that you could use. But we elected not to provide that again because we felt like it would be over-magnifying the revenue decline looking forward, particularly in comparison with where we posted this quarter. It wouldn't have made much sense.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Q

Okay. That's really helpful. I appreciate that. Derrek, in your remarks, I think you said something about the contraction in the second half not being as bad as we saw in the second quarter. We modeled by segment. I know you gave a little color there. But where would we see, I guess, the rate of improvement or the rate of things getting less worse in which of the three segments?

Derrek L. Gafford

A

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

Sure. Well, a big piece of it is going to be in the RPO group. So, there's two things that's going on in our gross margin related to RPO that will step itself down. One is the fact that when it came to doing some of the headcount reductions, those did not all occur at the very beginning of the quarter whereas with our staffing groups, most of those did.

With the RPO business, we had to treat that client by client and talk it through with each of our clients on what they were really expecting for the year that we were thoughtful about the headcount reductions to make sure that we didn't peanut butter those reductions across our client mix and we really tailored to each client. So what that did is it delayed some of the headcount reductions when it comes to recruiters. So, that's a piece of it. Also with Boeing that we used to serve, the profit reduction there that we were facing is a headwind of about 50 basis points in Q2 and about 25 basis points in Q3. So that also sets itself down.

And then the severance, we had 80 basis points of severance, I'm speaking at an enterprise level, related to the headcount reductions that we had in RPO. So, you take all of that and take a look for the pickups that you see in the gross margin will mostly be in the RPO area for PeopleScout.

Jeffrey M. Silber

Q

Analyst, BMO Capital Markets Corp.

Okay. That's very helpful. If I can just sneak one more in and then I'll get back in the queue. Specifically on Labor Ready, you cited the pace of recovery lagging a bit because of higher exposure to hospitality, I think we all understand that. But you also cited construction and I guess, we've seen kind of a mixed bag in terms of construction recovering throughout the country. I would have thought you might have seen trends get a little bit less worse because of construction. If you could just comment on that that'd be great. Thanks.

Derrek L. Gafford

A

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

Well, that could be a possibility as we move into the back half of the year. So, we saw, as we went through the quarter, improvements in most all of the industries with the exception of construction. So, keep in mind that with construction, about two-thirds of our mix there is non-residential and about a third is residential. So, no doubt the

June building permit news that came out was very positive. So, that was permits, although residential has had its share of some good news even in the amount of investments that's taking place in the country.

So, for us, though, when you think about non-residential, don't think about office spaces in downtown. Oftentimes, a good portion of this is not in residential, but surrounds communities that are being built. So, if the residential trends continue to do well, we would expect to see more business coming than we're serving right now on the non-residential space.

.....
.....
Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

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

Q

.....
.....
Operator: Your next question comes from Mark Marcon with Baird. Please go ahead.

.....
.....
Mark Steven Marcon

Analyst, Robert W. Baird & Co., Inc.

Good afternoon. Thanks for taking my question. With regards to PeopleScout, I missed the what we exited the quarter in terms of the July month-to-date. Do you have any data for that?

Q

.....
.....
Derrek L. Gafford

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

We don't, Mark. We don't do our billings weekly there. We just do them monthly. But I can say that for May and June – or excuse me – yes, May and June for PeopleScout we were at 54%. So, it's going to trail a little bit here until some of the hospitality and airlines turn around. Or what we've also seen before is we've seen quarters where we've been down significantly as much as 15% or 20% and then two quarters later flip back to 15% growth. So, it doesn't take a lot as far as client activity, a couple of big wins to either put them back around to the upside or flip it to the negative. It's pretty choppy. But what we can say right now is that the pipeline that we've got in here has been pretty steady with what we saw at the end of last year. There's not anything that's significant on the horizon that would change the trends or we'd give some outlook towards that at least as we ended up the quarter.

A

Q

Mark Steven Marcon

Analyst, Robert W. Baird & Co., Inc.

So, if we take a look at June, that would probably be a reasonable guess for like where the third quarter could end up?

A

Derrek L. Gafford

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

I mean, I think that'd be a reasonable guestimate. We're not providing any guidance. But we haven't provided anything that would suggest otherwise. When you take a look at our other businesses, you've got more of a trajectory to look at improvement whereas our PeopleManagement business in April down 30%, we ended the quarter in June down 15% where that 30% was in April, so 15 points of improvement and month-to-date in July down 12%. The PeopleReady trends are quite encouraging here at the end of the quarter. We saw 7 points of improvement between June and April. And through the first three weeks of July, we saw 6 points of improvement month-to-date versus what we saw in June. So, almost as much improvement in the year-over-year trend between month-to-date results in July versus what we posted in June.

Q

Mark Steven Marcon

Analyst, Robert W. Baird & Co., Inc.

Yes, I see that.

A

Derrek L. Gafford

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

So, those are encouraging results in the most recent trends for PeopleReady.

Q

Mark Steven Marcon

Analyst, Robert W. Baird & Co., Inc.

Derrek, do you think that that sort of trend could potentially continue or how are you thinking about kind of the recent – and obviously, the COVID case counts and hospitalizations are changing by the day. Have you seen any sort of change in terms of like how clients are talking about things as there was a recent resurgence? And in some

states, it also looks like there might be some leveling off and maybe pulling back. So, you do have a rapid response business. To what extent are you seeing changes real term?

Derrek L. Gafford

A

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

Yeah. Thanks for that question. Yeah, there certainly is a lot going on out there. Isn't there? A lot of factors going on. Well, the part that, as we saw the cases rising that concerned us the most was our exposure to Florida, Texas and California for PeopleReady. That makes up about 35% of the business. That said, if I take a look at the last week of where we ended the quarter for Q2, so week 13, for each one of those states and look at where we came in in week 3 of July, the July year-over-year decline for each of those three states is better than it was for the week that we ended the quarter. And the week that we ended the quarter there was no anomaly there. It was a pretty steady decrease throughout the month of June. So, hard to say, Mark.

As I saw those rising, I thought we might see a bit more impact in those three states, have not seen anything reverse course yet in those three states. And I would say, if you took a look at our top 10 states, the statistic that I just gave about week three, PeopleReady being better than the last week of the quarter was true for virtually all of those unless you had a unique issue of a lost customer or a big customer that have cut demand. But the underlying trends for those top 10 states were directionally on par with what I just talked about for California, Florida and Texas.

Mark Steven Marcon

Q

Analyst, Robert W. Baird & Co., Inc.

Great. And it was great to see the debt covenants restructured. Can you talk a little bit about what you were seeing? You did a good job in terms of collections. We typically harvest AR when these sorts of situations occur. Any change in terms of collections in terms of how that progressed through the quarter, any signs of stress among the client base or how do you think about cash flow coming into this quarter?

Derrek L. Gafford

A

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

Yeah. Thanks for that question. Well, let me just briefly hit the covenants and then I'll talk about that collection pattern. We did move to a change in covenants for the next four quarters. There's a couple different covenants, but the main one is an asset coverage ratio. So, you take your accounts receivable times 60% on the numerator and the amount of debt or the amount of borrowings that you have outstanding, which is going to be debt and letters of credit done on the denominator. And that needs to be above 1. So, that gives us a lot of flexibility in our covenants. It's a favorable covenant to have in a time where the profitability levels are lower. So that just gives us more cushion and breathing room, even though we had plenty of room as it is right now.

When it comes to the collection side, we've been really pleased with what we've seen. We have had in our PeopleManagement business some of our more well-capitalized customers stretching payment terms out either because in some circumstances we had some terms that said they were – it's 30 days and they said, hey, that's just not best practice, we're changing it for all of our vendors to 60, or some where they have more elongated supply chains and they're getting stretched so they stretched our terms.

But what I would say in those circumstances, we don't see any systematic risk to that portion of the credit profile. Where we have arguably the most risk is in our PeopleReady business because of the small business proportion of – highly proportion mix of the business that exist within that business unit. There we saw DSO only increase by about a day, though, overall the DSO was up by four days, predominantly because of those PeopleManagement situations that I just mentioned, but the PeopleReady DSO staying up about one day. That compares to – if you go back to 2009, our DSO was up about five days. This is about 30 basis points more of bad debt expense. So hopefully that gives you some thoughts on credit risk collections and the cash flow cycle.

.....
.....

Mark Steven Marcon

Analyst, Robert W. Baird & Co., Inc.

Great. Thank you.

.....
.....

Q

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Hey Mark, this is Patrick. Just wanted to follow up on the question that you had about clients. One of the things that we're seeing is new types of engagements that we hadn't seen in the past. We mentioned in our prepared remarks around some bounce-back strategies that we have developed, particularly targeting retailers that had needs to widen aisles and reconfigure their facilities to be more socially distant for their customers to keep people safe. And we've seen some pretty sizable wins kind of late in the second quarter. And part of that's driving what you're seeing in PeopleReady improvement in July versus the exit rate for the quarter is. There's some demand coming from engagements that we hadn't seen in the past specifically around social distancing and reconfiguration. And so that's been a bright spot for PeopleReady business.

.....
.....

A

Operator: [Operator Instructions] Your next question comes from Josh Vogel with Sidoti & Company. Please go ahead.

.....
.....

..... Josh Vogel

Q

Analyst, Sidoti & Co. LLC

Thank you. Good afternoon, guys. I apologize. I hopped on late, so if any of this is a repeat for you, my apologies. Looking at your end markets and client bases as well as your own internal operations, can you give me a sense of

what percent is operating virtually today and are there any lessons being learned where you may be able to maintain this virtual component longer term?

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Well, Josh, this is Patrick. I'm not sure I fully understand the question. If you're asking about us being able to operate virtually, all of our corporate staff are operating virtually. Our branches, though, are open for business and our onsite through PeopleManagement are open for business. And what we've been doing, though, is we've been leveraging technology, particularly our JobStack technology and our digital onboarding to engage with our associates in a less in-person way and a more digital way and put them to work.

We've also put in place some pretty innovative approaches to recruiting. In our PeopleManagement business, we've run dozens of what I would describe as sort of drive-thru job fairs where people drive up, we hand them an iPad, they fill out the information, we do a quick interview while they're in the car and just with the window cracked, and we've been hiring a lot of people. In fact, we've seen four times as many people hired from our drive-thru job fairs versus what we would normally do during a regular job fair. So we're innovating towards how we're engaging candidates and how we're engaging clients and we're obviously able to do that in a modified way today versus pre-pandemic. I don't know if that answers your question or not, though.

..... Josh Vogel

Q

Analyst, Sidoti & Co. LLC

No, that's perfect, Patrick, thank you. And it kind of leads into my next question is being able to kind of reduce the reliance on the branch structure or the real estate footprint. Are you finding that there's any pockets of opportunity in certain markets where you can scale back the branches and continue to engage through the technology in a more digital way?

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Yeah. Well, to-date, we've not closed any branches and that was very purposeful on our part. But I'll get to the thrust of your question, which was from a longer-term perspective, the crisis is testing our approach to how we run the business, particularly in PeopleReady. Previously, we wouldn't have been willing to run a PeopleReady branch with less than three people and now we're exploring different approaches and finding that we're able to achieve some operating leverage, especially in urban areas where we have branches that are clustered. We're also expanding our centralized delivery efforts, our virtual processes, our enhanced digital solutions and all of which in my view position us very nicely to take some substantial cost out of our branch network over time.

But what we're not doing is closing branches today. And the reason for that is in the last recession, we closed a lot of branches. And one of the things we learned is that if we close a branch, it becomes hard to open it up. Customers don't forget that you had a branch and then you closed it down and it just becomes hard to get it all

started up again. And so, instead what we're doing is we're keeping our branches open now, preserving that revenue stream and then laying the groundwork through some of the digital capabilities we have in the virtualized processes as well as centralized delivery and support that's going to allow us to take some cost out in the future and that's really a multiyear journey. That's not something that you'll see massive results in Q3 and Q4. But in the coming years, it will absolutely be material.

..... Josh Vogel

Q

Analyst, Sidoti & Co. LLC

All right. And that makes sense. And I saw the comment in the slide presentation that you're tracking competitors' closures at PeopleReady. So, when I think about that, are you seeing a meaningful amount of competitors closing in key markets? And if so, is there anything you can maybe quantify with regard to how that's improving your candidate pool, maybe what it look like or what it looks like today versus a few months ago?

A. Patrick Beharelle

A

Director & Chief Executive Officer, TrueBlue, Inc.

Yeah. So, we've got a formal tracking mechanism for competitors and the numbers up to date are not huge. We've got over 30 closures that we've been tracking, mostly from mom-and-pop type companies that weren't particularly well-capitalized and a 30%, 40% revenue hit puts them out of business. And so, we've certainly seen that. And then what we're doing is we're approaching their clients, let them know that we'd like their business, and we've had some nice wins come out of it. I wouldn't say it's been enough to move the needle in a significant way, but it's early days. And my view is that we're going to continue to see pressure on the industry, particularly some of the smaller mom-and-pop-type providers that just aren't as well-capitalized as some of the big staffers. And so, it's primarily the smaller companies, and we've had some early success, but I wouldn't describe it as material yet.

..... Josh Vogel

Q

Analyst, Sidoti & Co. LLC

Okay. And lastly, and you probably already did cover this. But can you maybe give a cross-section of how results are trending across each industry over the past month or so relative to – or your end markets versus what you saw in Q2 and what you're seeing today?

A. Patrick Beharelle

A

Director & Chief Executive Officer, TrueBlue, Inc.

Why don't we have Derrek take that one? He's got the details.

A

Derrek L. Gafford

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

Hey, Josh. Thanks for joining us. Well, when you take a look at our industry trends, I would say the one that has moved the least is our construction business. So, our construction business overall for the company, which is really primarily driven almost entirely actually by PeopleReady, is down 48%. And so, throughout the quarter, those, everything it was, for that part of the business was down in the 40s, which might be a little surprising with some of the new news that has come out on construction improving trends particularly in the residential space. It's something that we briefly talked about, Josh, was that most of our mix there is on the non-residential side, not necessarily office buildings, but manufacturing facilities, warehouse facilities and oftentimes businesses – retail businesses and other support surrounding residential development. So, we'd expect that one to improve more as those neighborhoods gets built and more non-residential gets built around those neighborhoods.

With the rest of our business units, in manufacturing, transportation, services, we saw improving trends in all of those businesses. Retail, not so much an improvement, but it's been a standout really all quarter long. Retail for us was down 2% for the quarter, which was really driven by a couple main areas. There's a lot to this. But one is help in frontline operations of retail with surges around grocery and other industries where we've been supplying labor within the store and then also on supporting the distribution of retail products. Particularly in our staff management business, the retail aspect there is very e-commerce driven, so we actually had growth in retail there, which it was all coming from distribution operations.

..... Josh Vogel

Q

Analyst, Sidoti & Co. LLC

That's really helpful. Thank you for taking my questions, guys.

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Thanks, Josh.

A

Operator: [Operator Instructions] There are currently no further telephonic questions at this time. I'll turn the call back to management for closing remarks.

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Thank you, operator. I'd like to just take a moment to say how proud I am of TrueBlue's employees and associates to how they've risen to the challenge so admirably during the pandemic. They've just done a tremendous job serving our over 100,000 clients and really appreciate it. And thanks to everyone listening in to the second 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 conference call. Thank you for joining. You may now disconnect.

Disclaimer

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

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED

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

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.