Corrected Transcript

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TrueBlue, Inc. (TBI)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by, and welcome to the TrueBlue Fourth Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [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 contain 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.

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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 be also 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. Before I dive into quarterly results, I wanted to take a moment to reflect back on 2020. In March of 2020, jurisdictions across the country began implementing restrictions to protect public health as the impact of COVID set in. Many of our clients temporarily halted operations or reduced volumes and our revenue dropped precipitously. By April, our year-over-year revenue decline hit a low of 42%.

Management was prepared for this moment and we reacted quickly. We deployed pre-existing recession plans and modified operational protocols to focus on the health and safety of our employees, workers and clients. In April, we unveiled a plan to reduce 2020 SG&A by approximately $100 million compared to 2019, which we have exceeded. These cost reductions helped us right-size the business to match lower client demand and preserve capital. The actions were difficult, but they were taken with care and with the long-term in mind.

For the employees that lost their jobs, we provided three months of fully paid extended healthcare benefits so they wouldn't have to scramble for new coverage in the midst of the pandemic. To ensure we're well-positioned as business conditions improved, we are investing heavily in clients and candidate-facing technologies and kept our branch footprint fully intact. Finally, to reward our employees for sticking with us this year, we are paying a onetime bonus.

The impact of our efforts is evident in our results. Our revenue trends have been improving each quarter since Q2 2020 and we posted positive net income in the third and fourth quarters. For the full year, revenue was down 22%. To mitigate this decrease, we reduced selling, general and administrative expense by 21%. While we encountered a net loss for the year, largely due to a goodwill and intangible asset impairment charge in the first quarter and workforce reduction charges in the second quarter, we were profitable on an adjusted net income basis for the year. Of equal importance, employee morale and engagement is high. Our most recent employee engagement scores from September were higher than they were prior to the pandemic.

Now let's discuss our fourth quarter results. We took the right actions to restore profitability and position the company for long-term growth as the economy continues to recover. In addition to improving revenue trends with the fourth quarter down 12% versus 25% in the third quarter, we sustained our cost discipline to drive year-over-year growth of 25% in income from operations.

Now let's turn to our results by segment starting with PeopleReady. PeopleReady is our largest segment, representing 60% of trailing 12-month revenue and 73% of segment profit. PeopleReady is the leading provider of on-demand labor and skilled trades in the North American industrial staffing market. We service our clients via a national footprint of physical branch locations, as well as our JobStack mobile app. PeopleReady's revenue was

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down 18% during the quarter versus down 29% in Q3 and we saw intra-quarter improvement with revenue down 15% in December versus down 20% in October.

PeopleManagement is our second largest segment, representing 32% of trailing 12-month revenue and 20% of segment profit. PeopleManagement provides onsite industrial staffing and commercial driving services in the North American industrial staffing market. The essence of a typical PeopleManagement engagement is supplying an outsourced workforce that involves multiyear, multi-million-dollar onsite or driver relationships. These types of client engagements were more resilient in the downturn when compared to the supplemental nature of a typical PeopleReady client engagement. PeopleManagement returned to growth in the fourth quarter, with revenue up 5% and intra-quarter improvement with December up 9% versus up 1% in October.

Turning to our third segment, PeopleScout represents 9% of trailing 12-month revenue and 8% of segment profit. PeopleScout is a global leader in filling permanent positions through our recruitment process outsourcing and managed service provider offerings. Revenue was down 24% during the quarter versus down 48% in Q3. PeopleScout results were particularly impacted by exposure to large travel and leisure clients.

Now I'd like to shift gears and update you on our key strategies by segment, starting with PeopleReady. Our long-term strategy at PeopleReady is to further digitalize our business model, to gain market share, and improve the efficiency of our cost structure. Most of our competitors in this segment are smaller mom-and-pops that don't have the scale or capital to deploy something like our JobStack mobile app. So this, along with our nationwide footprint, is what makes us unique.

We began rolling out JobStack in 2017 to our associates, and in 2018, we launched the client side of the app. We now have digital fill rates north of 50% and more than 26,000 clients using the app. In Q4 2020, we filled 811,000 shifts via JobStack, representing a digital fill rate of 57%.

Our client user count ended the quarter at 26,300, up 23% versus Q4 2019. In mid-2020, we introduced new digital onboarding features that cut application time in half. This has led to some great operational results, as we increase the ratio of associates put to work versus all applicants. We continue to experience an increase in worker throughput of approximately 20%. We expect this percentage to further improve as we fine-tune the process. This is exciting. And as we move back toward a more supply constrained environment, increased throughput will translate directly to revenue.

Right now, we are very focused on driving heavy client user growth. A heavy user is a client who has 50 or more touches on JobStack per month, whether it's entering an order, rating a worker, or approving time. JobStack heavy users have consistently posted better year-over-year growth rates compared to the rest of PeopleReady. The growth differential between heavy users and nonusers reached its peak in December with an over 30 percentage point year-over-year growth differential on a same customer basis.

This growth differential is largely driven by wallet share takeaways from competitors. Heavy user clients are telling us a major reason they are moving share to PeopleReady is due to JobStack's unique capabilities. Our focus on heavy user growth is beginning to become more material in our overall results. For all heavy users, we doubled the mix since 2019, up from 11% of PeopleReady's business in fiscal 2019 to 24% for 2020. Of course, our positive strategic progress is overshadowed by the macroenvironment at the moment. But we continue to invest in our digital strategy and believe this approach will help PeopleReady emerge stronger than prior to the pandemic.

As our digital strategy continues to mature, we're taking a look at areas within PeopleReady where we can reduce our service delivery costs. In 2020, we began testing a few different strategies to further reduce the cost of delivering our services. We plan to expand our testing in 2021 to include more technology utilization and an altered go-to-market approach.

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As we move down this path, I want to emphasize that the value and importance of our branch network should not be underestimated. We need to maintain a local presence in our communities where we do business. At the same time, we do see an opportunity to centralize more services and reorient job roles to improve our client-focused delivery. We'll continue to update you on this front as plans progress.

Turning to PeopleManagement, our strategy is to focus on execution and grow our client base. Initiatives we've already implemented include sharpening our vertical market focus to target essential manufacturers, and leverage our strength in e-commerce. These are verticals that have held up well relative to the decline in nonessential goods at traditional brick-and-mortar retailers. We've also made a concentrated effort to enhance the productivity of our sales teams. First, we completed the integration of our staff management and SIMOS brand sales teams, allowing the integrated team to offer a full portfolio of hourly and cost-per-unit solutions to clients.

Second, we are expanding our presence in smaller markets we believe have been underserved. These strategic initiatives are already paying off. Even in the middle of this downturn, year-to-date new business wins at PeopleManagement are up 20% versus the prior year as we've secured $79 million of annualized new business wins versus $66 million in the prior year. As the demand environment recovers, we'll be increasing sales resources and investing in client care programs to maintain our momentum.

Turning to PeopleScout, the strategy leverages our strong brand reputation to capture opportunities in an industry poised for growth. Before COVID struck, we, along with our competitors, experienced a trend towards more insourcing with some clients bringing more recruitment functions in-house. Many of the in-house teams have been reduced or eliminated during the pandemic and we expect a trend reversal back towards outsourcing as the economy recovers. Focusing our sales teams on this trend will allow us to increase wallet share at our existing clients and diversify the industry mix within our portfolio.

I'd like to take a moment to touch on our capital allocation priorities. During the first half of 2020, we repurchased $52 million of our common stock, or 9% of our common stock outstanding, at favorable prices. While 2020 was not an easy year, we took the right actions to preserve the longevity of the business while retaining our operational strengths. Investments in our digital strategy and our lean cost structure have us well positioned for 2021.

I'm extremely proud of the leadership and resolve demonstrated by the entire TrueBlue team. By coming together and staying true to our mission of connecting people and work, we have continued to provide a vital service to our communities even in the midst of a pandemic. Thank you to all of our employees, associates, suppliers and clients.

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 Q4 2020 was $519 million, representing a decline of 12%. We posted net income of $8 million or $0.23 per share and adjusted net income of $11 million or $0.33 per share. While net income this quarter declined 8% compared to Q4 2019 in large part due to a higher effective income tax rate, income from operations was up 25%.

This increase in operating profitability was due to further improvement in our revenue trends and disciplined cost management. The Q4 year-over-year revenue decline was 13 percentage points better than the Q3 year-over-year revenue decline and Q4 SG&A was down 22% year-over-year or down nearly twice as much as the revenue

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decline for the quarter. Adjusted EBITDA was $22 million, an increase of 4% compared to Q4 2019. And adjusted EBITDA margin was up 60 basis points.

Gross margin of 23.3% was down 190 basis points. Our staffing businesses contributed 170 basis points of compression from pay rates increasing faster than bill rates and from sales mix largely due to the revenue growth in our PeopleManagement business, which has a lower gross margin than our PeopleReady business, which had a revenue decline. PeopleScout contributed another 20 basis points of compression primarily due to client mix and lower volume.

We expect additional gross margin pressure in the first quarter of 2021, but expect it to moderate as we anniversary the onset of the pandemic in Q2. Assuming a strong bounce back in economic growth in the back half of 2021, we expect some gross margin expansion assuming we experience revenue growth in our PeopleScout business due to the operating leverage associated with its cost of sales and to a lesser extent gross margin expansion in our staffing businesses from favorable bill and pay rates spreads associated with less slack in the labor supply.

Turning to SG&A expense, we delivered another quarter of strong results with expense down $28 million or 22%. We maintained our cost discipline while preserving our operational strengths to ensure the business is well positioned for growth as economic conditions improve. We also see opportunity to further reduce the costs of our PeopleReady branch network while maintaining the strength of our geographic footprint through a greater use of technology, centralizing work activities and repurposing job roles. We are in the early stages of planning the pilots that will occur throughout 2021 and, if successful, will lead to additional efficiencies in 2022.

As Patrick mentioned, we are rewarding our employees with a onetime COVID bonus for their extraordinary efforts this past year. This bonus as well as COVID government subsidies are excluded from adjusted net income and adjusted EBITDA. Our effective income tax rate was 28% in Q4, which included additional expense associated with less net operating loss benefit available to carry back to prior years due to a stronger performance in Q4. Excluding the net operating loss adjustment, the effective income rate was 9%.

Turning to our segments, PeopleReady, our largest segment, saw an 18% decline in revenue and segment profit was down 10%. As additional social and government mandates were enacted in December to address the COVID-19 threat, our year-over-year decline did not improve much, but held relatively steady. And this trend has continued into January where revenue was down 18%.

PeopleManagement saw 5% growth in revenue and segment profit was up 104%. PeopleManagement experienced encouraging intra-quarter revenue improvement, with December up 9% compared to 1% in October. Revenue growth continued into January with PeopleManagement up 5%. About half of the segment profit growth in Q4 is attributable to cost management and revenue growth and half from unique costs in Q4 last year creating a favorable comparison this year.

Turning to PeopleScout, we saw a 24% decline in revenue and segment profit was down 18%. Temporary project work provided 6 percentage points of revenue benefit. As Patrick noted, PeopleScout results were adversely impacted by exposure to travel and leisure clients, which made up roughly 28% of the prior year mix, and revenue for this vertical was down 54%.

Now, let's turn to the balance sheet and cash flows. Our balance sheet is in excellent shape. We finished the year with $63 million in cash, no outstanding debt, and an unused credit facility. Cash flow from operations in 2020 was $153 million, up from $94 million in the prior year, with the increase coming largely from the deleveraging of accounts receivable. It was also a strong quarter for us from a working capital perspective with days sales outstanding at 49 days, or down three and a half days in comparison with Q4 last year.

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Now, I'd like to take a few minutes to discuss certain forward-looking information we are providing to help investors form their own estimates. This information and more can be found in the quarterly earnings presentation filed today.

For the first quarter of 2021, we expect gross margin contraction of 290 to 250 basis points and for the full year contraction of 50 to 10 basis points. As a reminder, in Q1 2020, there was 130 basis points of gross margin expansion from healthcare benefits that were excluded from adjusted net income and adjusted EBITDA. For the full year 2020, there was 20 basis points of net benefit from the healthcare benefit I mentioned, less workforce reduction costs that were excluded from adjusted net income and adjusted EBITDA. You can find more information on these items in our non-GAAP reconciliations.

For the first quarter of 2021, we expect a year-over-year SG&A reduction of $13 to $17 million. I'd also like to remind everyone that we will anniversary most of our cost reduction actions in April of 2021. For capital expenditures, we expect about $16 million for the first quarter and $37 to $41 million for full year 2021. These figures include approximately $8 million and $10 million for Q1 and 2021, respectively, in build-out costs for our Chicago support center, of which, $7 million will be reimbursed by our landlord with $6 million of the reimbursements expected in the first quarter. The reimbursements from our landlord will be reflected in operating cash flows.

Our outlook for fully diluted weighted average shares outstanding for the first quarter of 2021 is 35.3 million. Providing an annual outlook for an effective income tax rate is difficult due to the semi-fixed nature of the work opportunity tax credit. We expect our effective income tax rate for the full year 2021, before job tax credits, to be about 23 to 27%. And we expect total job tax credits to be $8 to $10 million. Due to the size of expected job tax credits, it is possible to have pre-tax income and an effective income rate benefit instead of expense at lower levels of profitability.

While we have more work to do to get back to where we were before COVID hit, we like the progress we have made. We've seen steady improvements in our revenue trends and with the prospect of meaningful vaccinations on the horizon, we're optimistic about the potential upside in many of the hard hit end markets we serve. We took the right actions to improve profitability, and have done so without losing our operational strengths or technology momentum. And we ended 2020 with a balance sheet that is stronger than where we started the year, which will further enable our ability to take advantage of the growth opportunities ahead of us.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We have our first question coming from the line of Jeff Silber with BMO Capital Markets. Your line is open.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

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Thanks so much for taking my question. You guys provided a lot of detail in terms of revenue trends by segment. Can we talk about just sort of the end markets, where you're seeing relatively more strength than weakness in terms of customer type? And I don't know if you have any comments geographically in terms of some of the areas where lockdowns have increased, if you've seen an impact there? Thanks.

A

Derrek L. Gafford

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

Hi, Jeff. This is Derrek. I'll help you out on this question here. So, let's talk about where we're seeing strengths and where we're seeing challenges in both of those areas that you talked about. Areas that where we've seen a lot of improvement from an end market perspective is manufacturing, transportation, services and retail. All of those end markets that I just mentioned are down mid single digit, whereas retail was actually up mid single digit, which reflects really if you were to compare back to where we were in Q3 an improvement in the trend somewhere around 2 or 3 times what it was in the third quarter.

Where we still have some areas of challenge, not surprisingly, is hospitality. Hospitality for us is down 50% for the company overall. That makes up about 5 points of our mix, but still is sizable due to the rate of decline that we're talking about. Construction has improved. Overall this includes our energy, industrial practice down 20%, an improvement from where we were in the mid-30s, but still relatively high amount of decline relative to the other end markets that I just mentioned.

From a geographic perspective, we saw widespread improvements across the vast majority of geographic areas in which we operate. If we were to pick the one though that was the biggest challenge or put it another way where we have the most opportunity for improvement looking forward would be the state of California. I mentioned state of California from two perspectives; one, it's relative size, it's our biggest state making up around 14% or 15% of our business mix and the rate of decline in that geography has remained elevated compared to others.

To give you some perspective of that, California has been running down in the high 20% for the last couple of quarters, it was down even more than that. So, certainly, meaning the lockdowns and the protocols in California are impacting our business. And it's also related to some of our decline in construction, it's a big construction market for us. So, hopefully, that color provides some help.

Q

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Yeah, that was great. I really appreciate that, Derrek. In terms of the guidance, I know you're not giving specific revenue guidance, but last quarter you kind of gave us some color to use for what was the fourth quarter. I was wondering if we can get something like that for the first quarter? Thanks.

A

Derrek L. Gafford

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

Sure. Well, what we saw going into January, well, let me back up. You've seen that from quarter to quarter a nice improvement in the rate of our decline. Meaning, in the third quarter, we were down 25%, coming into the fourth

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quarter we ended up down 12%. We saw nice monthly improvements in most of the business units, but the unit where we saw things stall a bit, at least from an improvement perspective, was PeopleReady. And so, that was not a surprise to us as COVID claims rose in that business unit.

When you take one like PeopleScout, most of this is done virtually. You take PeopleManagement, these are big operations really all predominantly in the logistics, the retail warehousing space and manufacturing, much of the food. So, those customers have very sophisticated operations to keep them running and there's very little face-to-face or person-to-person contact with customers. Whereas that's not quite the case with PeopleReady. It's not a concern to us. We saw this similar trend when COVID cases spiked in the summertime, although it was not nearly as big as the spike now. We saw the rate of improvement diminish some. And so, we saw that going into January as well.

So, from a PeopleScout perspective, you can see if you look at our materials, we're trending about where we left off in December. For PeopleManagement, not quite as much growth as we had in December because December was largely helped at PeopleManagement by the peak holiday season, which doesn't continue on into our run rate into January. And then, PeopleReady, the decline getting a tad bit worse than where it was in December.

So, all in all, that gives you some color going into the first quarter. Also, keep in mind that we'll start to anniversary a bit of the fall off as we get to the back half of March. So, the last two weeks of March revenue declines were running in the high 20% range for us as a company. So, that's another small detail you can tuck away for use as you see fit.

Jeffrey M. Silber — Q

Analyst, BMO Capital Markets Corp.

Right. That's really helpful. And just one quick follow-up. January typically is your weakest month seasonally, is that correct?

Derrek L. Gafford — A

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

That's right. January is our weakest month seasonally and Q1 also you could put into that category as well from a seasonal perspective, which also makes the profitability line quite sensitive due to the fixed costs.

Jeffrey M. Silber — Q

Analyst, BMO Capital Markets Corp.

Okay. That's great. I'll jump back in the queue. Thank you so much.

A. Patrick Beharelle — A

Director & Chief Executive Officer, TrueBlue, Inc.

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Hey, Jeff. This is Patrick. I just wanted to add a little bit more color on your first question about kind of what we're hearing on our end markets from talking with our clients in Q4 and into Q1, just some nuggets that we're hearing from our manufacturing clients. They're signaling some supply chain lumpiness in near term, but good bit of optimism in the long term. And then, for those clients that you kind of described as COVID winners, firms that do home fitness or food manufacturing or online retailers, their volumes have been very strong throughout the whole year. And their big question is to what degree are we having a reset and if the tailwind will continue.

And then, of course, are COVID losers, probably not the best term to use, but for those companies that are in events and hospitality and travel, they're wondering the same question except on the opposite end is when will the headwind start to ease off. And as we look into the first half of this year, I think there's going to be continued headwinds in events and hospitality and travel, hopefully easing off into the back half of this year and into next year.

Operator: We have our next question coming from the line of Kevin McVeigh with Credit Suisse. Your line is open.

Kevin McVeigh — Q

Analyst, Credit Suisse Securities (USA) LLC

Great. Thanks, Patrick and Derrek. Hey, Derrek, one thing I just wanted to clarify, did you say travel and leisure was 28% of PeopleScout revenue?

Derrek L. Gafford — A

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

Yeah. If we take travel and leisure for PeopleScout, that's right, about 28% of the business there and if we take the mix where it was fourth quarter a year ago at 28% and we're seeing about a 50% decline there. So, you could do some math and say approximately 15 percentage points of the revenue decline for PeopleScout is related to those industries.

Kevin McVeigh — Q

Analyst, Credit Suisse Securities (USA) LLC

Got it. Because if I had my notes correct from last quarter, I thought it was 7% to 8% of total revenue but maybe that was hospitality, maybe that was overall, just wanted to confirm that. And then, one thing it seems like you folks have made a lot of progress on is obviously the branch capacity. I wonder any updates as to kind of footprint? It sounds like you still need some visibility. But how are you thinking about branch capacity longer term, particularly given the success you're seeing from a technological perspective?

Derrek L. Gafford — A

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

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Yeah. Well, we've managed capacity really tightly through 2020, no doubt. As you know, most of our costs come from our employees and most of our employees are out in our operations. And so, when we're talking about our capacity in our branches and our onsite locations, we've run that tight. But even with the cost reductions that we're talking about here in the fourth quarter, we did add some capacity in the fourth quarter. We ended the fourth quarter with 300 more employees across our business units. I'm talking about people out in the field or in support locations that are directly serving customers. So, we've added some capacity there.

When we take a look across the medium term, we still think we have a lot of opportunity to increase productivity and the efficiency of our overall operations, as Patrick alluded to. At PeopleReady, we've still got a very sizable branch footprint. And so, the opportunity for us is reducing the branch footprint, but not our geographic footprint. So, that means repurposing some job roles, doing some centralization of key processing, operational processes and activities in larger branches, dropping some branches, but still keeping those employees that were in those branches heavily engaged in selling and servicing our customers.

And so, there are some operating efficiencies from that, as well as technology. We're going to stay true and keep investing in our JobStack technology. We think that's the biggest differentiator when it comes to candidates, when it comes to customers. That's going to help – continue to help productivity. And then, underneath that, what I'll call more operational processing systems, things like CRM, applicant tracking systems, our bill and pay systems, which today are also proprietary technology, we think there are opportunities to move to some more standardized systems that will also get us in the cloud, provide a little bit more innovation on those things.

But we don't need to have those spent a lot of money trying to differentiate those things. Those are very basic processes, but important ones. And so, by doing so, we can reduce some of our IT spend there, reduce some of human capital that it takes to maintain those and then increase the proportion of time we're spending on differentiated technology and at the same time with all of those really helping our branch operations become more productive in a more virtual type of go-to-market strategy.

Kevin McVeigh
Analyst, Credit Suisse Securities (USA) LLC

Q

Makes a lot of sense. And then, just one more quick, I'll get back in the queue. Just any thoughts – it seems like there's a little bit of bill pay pressure. It looks 170 in the quarter and then you've gotten to 250 to 290 for the Q1. Any thoughts as to what's driving that, is that minimum wage driven, or just any thoughts around that? And if I have it right, is that getting a little bit worse as you start in Q1 or is that just normal timing of pay versus bill rates?

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

A

Well, let's talk about Q1 in particular, and then I'll talk about the bill pay rate spread, and then we'll try to simplify things as we look forward to 2021. The guidance that we've given in Q1, I'm going to go off of midpoint here. Yeah, that's a pretty sizable decline that we've guided to on the surface of it, which is about 270 basis points. So, it looks like it's getting worse, but keep in mind that in Q1 of this year, we had 130 basis points of benefit from healthcare benefit costs that we lowered due to some reserve adjustments from prior year. So, if I excluded that, that's going to take you down to 140 basis points of compression, which is actually less than what we had here in Q4 at 190 basis points overall. So, that's progress.

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If we stand all the way back from 2020 and just say, hey, we had 230 basis points, what's it all come down to? You've got about 100 basis points that's from pricing, that's from negative bill pay spreads. Largely what's going on there is that even though we're in a recession, pay rates at the lower rates have went up a lot, probably more so than we've seen in other recessions, somewhat because of safety concerns, somewhat because of unemployment benefits that are there, sometimes making it attractive at lower pay rates to take unemployment versus work. So, you've got those dynamics in place. You've always got people that are at home with kids and so it takes more money to entice them away to have a substitute. All of those things are driving into a little bit of higher of the pay rate inflation.

But if you stand all the way back to 2020, basically, what we saw is 100 basis points of overall compression in 2020 to pricing and 150 basis points to mix and you've got 20 that kind of falls in an other category. That mix piece is largely from PeopleManagement, our lowest gross margin business faring better and our higher gross margin businesses at PeopleReady and at PeopleScout faring less well. So, we don't think that the pressures that are at PeopleReady or at PeopleScout or anything that's fundamental or long term, we think it's more of a matter of timing. So, that 150 basis points really comes back as the mix adjusts and then that other 100 basis points on pricing we think will start to come back as we have less slack in the labor supply as more jobs are created with more economic growth and pricing power swings back more to the staffing industry, which is what we have seen in prior emergences of – from other recessions.

Kevin McVeigh Q

Analyst, Credit Suisse Securities (USA) LLC

Very helpful. Thanks. Thanks, guys.

Operator: We have our next question coming from the line of John Healy with Northcoast Research. Your line is open.

John Healy Q

Analyst, Northcoast Research Partners LLC

Thank you. Derrek and Patrick, I wanted to ask kind of a big picture question. We see a lot in the news about $15 federal-mandated minimum wage. Kind of curious just how you guys interpret that and the repercussions for your business? And not so much from a – even just a bill and pay rate spread standpoint, but just from a demand standpoint. Do you see it as a catalyst, do you see it as a headwind? I feel like it's pretty theoretical at this point, you can go a lot of ways with it. So, curious to see how you guys are initially feeling about that?

A. Patrick Beharelle A

Director & Chief Executive Officer, TrueBlue, Inc.

Yeah. I'll go ahead and take that one, John. This is Patrick. There's a lot of crosscurrents when it comes to $15 minimum wage. From a good guy perspective or a tailwind on our markup-based businesses, when minimum wage goes up, that ends up being a tailwind for us and generates some more revenue. But strategically, if we look at this longer term, business cases start to change around automation and offshoring. Also, people's individual business cases of going back to work or not start to change as well. At $15, $16, $17 an hour, you've got an increased labor pool versus jobs that are at $9, $10, $11 an hour.

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And so, we see it as it's too early to tell tailwinds with market-based business and a larger labor pool headwinds around offshoring, automation. And then the big unknown is buyer behavior and how clients will react to a minimum wage that would need to be phased in over multiple years. I can't imagine a scenario where this would be a big bang all at once. So, there'd be time to adjust, but I think it's too early to take a strong position on – to what degree it'd be a tailwind or a headwind for us, John, because there's some crosscurrents right now.

John Healy Q

Analyst, Northcoast Research Partners LLC

Makes sense. And then, just one other question, kind of a big picture one as well. When you guys talk about the JobStack app, just theoretically, do you guys ever think about potentially using that almost as a separate business as opposed to a tool? And the way I was thinking about it was, is there a scenario where you provide that application to third parties, either for companies to use internally or even for smaller staffing firms to become competitive and maybe you guys kind of use it as an application as opposed to an internal tool? Just kind of curious how you see JobStack maybe over the next five years or so?

A. Patrick Beharelle A

Director & Chief Executive Officer, TrueBlue, Inc.

Well, we've had a lot of discussions internally, John, about what's the best way to monetize JobStack. You never say never to a complete shift in business model like that. But when we look at 2021 and 2022, what we're focused on is continuing to drive more heavy users to JobStack. As I mentioned in my comments earlier, we've seen some nice wallet share takeaways and disproportionate revenue growth among those clients that are using the tool.

We've also increased some of the capabilities around onboarding by digitalizing that process and taking a lot of friction away from the application process. And so in the end, by digitalizing significant parts of our business, we think our dependency on branches is going to evolve and we're going to become less dependent on branches and that's going to allow us to take the cost out as well. So from our perspective, we're focused on driving more heavy users and taking cost out of our branch network in 2021 and 2022. And beyond that, it's an open item.

John Healy Q

Analyst, Northcoast Research Partners LLC

Great. Thank you, guys.

Operator: We have our next question coming from the line of Josh Vogel with Sidoti & Company. Your line is open. Josh Vogel, your line is open. You may ask your question.

Josh Vogel Q

Analyst, Sidoti & Company, LLC

Yes. Can you hear me?

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A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

A

Yes. We can hear you, Josh.

Josh Vogel

Q

Analyst, Sidoti & Company, LLC

Okay. Sorry, I was having a technical issue there. Thanks for taking my questions. I hope you guys are doing well. I wanted to build off that last question a little bit, but in a little bit of a different way. So when you think about the applications of JobStack's ability to leverage its technology, you're taking share from smaller competitors. Can we assume that that opens the door to other potential markets that you do not currently service or you have smaller exposure to?

So especially when we think about the growing gig economy, maybe you can share some thoughts around the opportunity there and if you didn't want to expand in some of the markets where you either have a little or no exposure where you maybe try to do that organically or through M&A?

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

A

Well, we've been evaluating adjacent markets, primarily to the PeopleReady business, Josh. But we're not prepared to make any announcements at this point. So just know that we're evaluating it. It's under discussion. But right now, we're focused on the clients that we have and going out and getting new clients within the like industrial staffing sector. But in terms of adjacent markets, it's on the drawing board. But whether we're going to or the timing on that is an open item that we're not making announcements on today.

Josh Vogel

Analyst, Sidoti & Company, LLC

Q

Understood. And then also tangent from one of the earlier questions, outside of the potential increase in minimum wage, and I know it's still early but there's a change in regards to Washington and some of the proposals being floated out there. Do you see anything or are you hearing anything that you think could be tailwind or headwind to your business?

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

A

Well, Derrek, why don't you take a first shot at that and then I'll add some color to it.

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Derrek L. Gafford A

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

Well, there's a few things that we've got our eye on. There's a lot that's being talked about. Clearly, there is talk out there from a tax rate perspective. We've got our eye on that. There is talks about immigration, we got our eye on that. I don't see any really complications coming from immigration or increasing more people to have the right to work in this country being a headwind for us. I think that's all good.

We can have a debate on taxes, but there's a lot of pontificating going on, on that topic. So I think at this point at least from my perspective, I don't have anything of immediate concern coming with this administration although there are a variety of topics. It's just still so early days Josh, but that's my take.

And, Patrick, you might have other thoughts.

A. Patrick Beharelle A

Director & Chief Executive Officer, TrueBlue, Inc.

Well, yeah, in the near term, Josh, with some of the stimulus and some of the investments in infrastructure that are being talked about, I would see that as a potential tailwind for our business. We've got a lot of skilled trade folks and a lot of general laborers that would help build out that infrastructure. A lot of our clients are very focused on that and curious to see what's going to happen. So I think it could be a tailwind for us if there's a big infrastructure spend that generally benefits our businesses.

Josh Vogel Q

Analyst, Sidoti & Company, LLC

Sounds great. And thinking about SG&A, I know that you just gave guidance for Q1, but as the year progresses, we anniversary a lot of the issues in April. How should we think about potential leverage in the model there? When we think about May through December, how SG&A should step up with whatever potential revenue growth you achieve?

Derrek L. Gafford A

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

Right. Well, I'll talk about in general since we haven't given our guidance. You've called out that we anniversaried some things when we hit April. Not all of our actions took impact in April but the majority of them did. So it's an important place to focus on. Also keep in mind we had some gives and takes in SG&A that we excluded. And have been clear about in our non-GAAP reconciliations. Two of the biggest are the – the workforce reduction charges we took in the second quarter. That's a sizable number that won't be repeating. So keep your eye on that.

We've also had some government subsidies that have been benefits to SG&A that we've called out. But if we exclude those and we're just talking about what's going on fundamentally with SG&A, we're going to continue to be really disciplined in our approach there. We're going to continue focusing on technology, to lower the overall

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cost and increase our efficiency. There will be some investments in SG&A as we grow revenue. It's the best way for us to have investments is supporting that, make sure we're taking good care of customers and our clients. But we're still going to continue to be balanced with all this Josh just like we have been so as economic demand really comes back strong that's traditionally been very good for our industry, it's been good for us from a revenue growth perspective when it happens and we've had good leverage going on with that revenue growth and we would expect that to be the same if we can get some gross margin accretion in as things unfold with strong economic growth maybe in the back half of the year, that would help it more.

Josh Vogel — Q

Analyst, Sidoti & Company, LLC

All right. And just one more quick one, nice to see that you're rewarding the employees that stuck with you, just from a cash flow perspective is that – curious about the timing and size of the bonus that you're going to pay out.

Derrek L. Gafford — A

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

Yeah. So the size of the bonus overall is $3.7 million and that will occur in the first quarter of the year 2021.

A. Patrick Beharelle — A

Director & Chief Executive Officer, TrueBlue, Inc.

Josh, this is Patrick. I just had one other thing to add on the bonus just so everyone doesn't think this is some kind of executive bonus about 97% of those bonus dollars will be going to non-executives in the company. So this is really a bonus for the rank and file employees and not any kind of executive payout.

Josh Vogel — Q

Analyst, Sidoti & Company, LLC

Got it. Thank you.

Operator: [Operator Instructions] Next question comes from the line of Mark Marcon with Baird. Your line is open.

Mark Steven Marcon — Q

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

Good afternoon, Patrick and Derrek. I was wondering if you could talk a little bit more about PeopleScout. You mentioned earlier in the call that you did have some clients that basically hold things in-house as things open up. We think we might see more outsourcing. Can you give us a sense for how direct those discussions have been?

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What caused them to pull things in-house? What have they discovered since that would lead them to outsource? And the competitive position for PeopleScout just in terms of being able to win RFPs?

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

A

Yeah. Thanks, Mark. It's Patrick. I'll take that one. So first, it's probably helpful to just start with what was the nature of the insourcing we saw with some of our clients. And it wasn't a situation we had clients going from 70% outsourced to zero. It's more of a situation where we had clients that were 70% outsourced and going to 50% outsourced, or they were 90% outsourced and they're going to 60% outsourced. So basically what was happening is our clients were bringing some scope in-house and they tended to be more mission-critical, higher and harder to fill type of positions. These were often driven at the CEO level where the strategy was to have more mission-critical positions handled in-house. So that would be the strategy.

And I don't want you to think this was a lot of clients. It was a handful of clients, but they were pretty large ones. And so what happened is they went and built teams and then as soon as they got the teams built, the pandemic hit. And most of those teams got blown up because the hiring was severely diminished. And so we've been in conversations with those clients. And in several instances, they said we're rethinking the strategy of having a fixed cost structure, sitting against a highly variable nature.

We also talked with prospects that are working with other RPO providers that experienced the same type of strategy, and they had similar thoughts. So I'd expect as hiring starts to pick up that mix will shift back to higher percentages, not necessarily the same percentage that we were at before, but to higher percentages. So those are coming directly from client conversations.

In terms of competing for RFPs, if we're just honest with ourselves, we've been really strong at high-volume, nonprofessional-type skills and very strong in North America. And where we've struggled more is in the large global deals that require significant Asia presence and a significant UK and European presence.

So we're building out our capabilities over the last couple of years, and we think our ability to compete for those types of global deals has been enhanced with our TMP acquisition in Europe, as well as some additional deals that we've sold that have more of a global component to them, so we've got more referenceability.

So we like our chances going forward, and we've brought in a new leader at PeopleScout in the fourth quarter of last year, Brannon Lacey. We just have a tremendous amount of confidence in him. And so we think we can compete with the best in the world.

Mark Steven Marcon

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

Q

Great. And then, can you talk a little bit about – if we assume that the world opens up in the second half sometime this year, how you would envision PeopleScout's revenues to basically flow, and particularly in light of those conversations that you're having with some of those clients, what they're telling you just from a timing perspective, and how we should think about the margin profile of the business getting back to historic levels?

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

A

Yeah. Well, I'm going to speak fairly high level on this, and then, Derrek, maybe you can chime in as to what degree you want to give some numbers. But if you look at PeopleScout in 2020, we were down 37% overall with improving trends from Q2 to Q3 and then Q3 to Q4. We're expecting a nice bounce back, particularly in the non-hospitality, non-travel and leisure clients.

The biggest unknown we have is those travel and leisure clients – and there are a couple of big ones for us. And when we talk with them about their forecast in the back half of the year, there's not a lot of visibility right now. So much depends on the effectiveness of the vaccine rollout and the lifting of restrictions. And there's just a lot of uncertainty sitting around that.

Derrek, maybe if you want to add a little color on just directional second half.

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

A

Yeah. So from a margin perspective, let me just talk about a big picture. We're still really bullish on the PeopleScout business both from a strategic perspective on how it serves the market, the low level of penetration at least compared to staffing when you take a look at the business world out there, our competitive positioning. And then when it comes to the margin aspect to this, we're very bullish on that as well.

Now, one of the things with PeopleScout that you have is our cost of sales at PeopleScout, it's mostly people. And what I mean by that – why that's important, it's the same dynamic we have in our staffing business, maybe even more so as far as kind of a fixed cost structure. So when the downturns come, yes, we can cut back on the number of people we have. But it doesn't directly offset the gross – the revenue and the margin profile that comes from that, so – meaning as volume comes back, a big part of the margin comes from some expansion in gross margins and more leverage across the SG&A space there.

It's been good for us as well. We've challenged a lot of ways that we're running that business. We've spent a lot of centralization. We've done a lot of repurposing of job roles. There's a lot of repurposing that's happened to get more general activities, processing activities, down to lower paid positions, so that we're more effectively utilizing our higher skilled positions and recruiters.

So I think as things start to rebound for PeopleScout, we feel very good about the margin expansion possibilities and getting back to a mid- to high-teens segment margin. I don't think that will be something that would be very tall order for us to see that by the end of 2021. But if we're talking across the medium term on that business overall, it's something that we are very optimistic about as we look forward beyond just next year.

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

Q

Great. And then from a short-term perspective, just when you take a look at the January year-over-year trends across all three businesses relative to December, the track changed a little bit. So it was a little bit worse in January, was that all due to COVID or is there also some mix shift with regards to some of the logistics business being particularly strong in December? Anything else that's going on that you could point to?

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Derrek L. Gafford

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

A

Yeah. Well, it's always hard to tell, Mark, how much is us and how much is the industry. But we were not surprised about the shift and the slowdown with PeopleReady. We saw that last summer. We looked at the University of Washington projections. We juxtaposed those projections and some correlation analysis around PeopleReady. And so this – we expected this at PeopleReady.

When we take a look at PeopleManagement, yeah, January revenue growth is 5%; in December it was 9%, but the 5% for January is higher than any other month there was. And so December was a little bit peak-ish with the holiday peak season and some of the online ordering was very good that doesn't carry forward into January. But I wouldn't call any of that part fundamentals, and with PeopleScout, yeah, it's about the same, but it's a lower revenue as far as dollars, so it's lumpy by nature. So I wouldn't be too concerned about looking into one month for PeopleScout.

So overall where January came out that we shared with all of you. That's about where we expected things to be given the things that I've just mentioned. So it's not concerning to us. We've seen pauses along the way like this, particularly with COVID and we think that the overall dynamics at least the fundamentals of each of the three of those business units remain sound. I don't think there's anything unique going on that's going to take the trend a different way than what we have been seeing across the course of this year as we move across the early parts of 2021.

Mark Steven Marcon

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

Q

Great. Thank you very much. I'll follow up more offline.

Operator: This concludes our question-and-answer session. I will now turn the call back over to the presenters.

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Thank you, operator. In closing, I'd just like to thank all of our employees and associates for their efforts throughout the pandemic and we look forward to speaking with you in our next quarterly earnings call. Have a great rest of your week, everyone.

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

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