Corrected Transcript

26-Jul-2021

TrueBlue, Inc. (TBI)

Q2 2021 Earnings Call

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

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for standing by and welcome to the TrueBlue Second Quarter 2021 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] Please be advised that this conference call is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Derrek Gafford, Executive Vice President and Chief Financial Officer of TrueBlue. Thank you. 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.

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. I am pleased to report, our strong revenue momentum from earlier in the year carried into the second quarter. Second quarter revenue was $516 million, an increase of 44% compared to the second quarter of the prior year. Growth was driven by both new client wins and higher existing client volumes as we capitalize on strong demand in the markets and industries we serve. We delivered net income of $16 million in the second quarter versus a loss of $8 million in the second quarter of the prior year, and adjusted EBITDA was up $30 million year-over-year with the related margin up 640 basis points.

Before turning to our segment results, I want to highlight three performance areas as they relate to our second quarter results and some thoughts regarding worker supply going forward.

First, we are excited our PeopleManagement and PeopleScout segments have nearly recovered to their pre-pandemic revenue for the second quarter. At PeopleManagement revenue is down just 1% versus Q2 2019 supported by a doubling of new client wins through June versus this time last year. Revenue for PeopleScout was down only 2% versus Q2 2019 as the travel and leisure segment rebounded strongly growing over 200% during the quarter. Revenue for PeopleReady was down 19% versus Q2 2019.

PeopleReady has not rebounded as quickly as the other segments. The worker supply shortage hits this segment harder due to the short notice period we receive from customers to deliver contingent workers. In addition, the federal unemployment benefits provide more compensation than typical low-wage, on-demand jobs. We are seeing both dynamics in certain industries, such as commercial construction, which is 12% of our mix and has only recovered 60% of Q2 2019 revenue.

Secondly, segment profit margins are improving across all segments. In our staffing segments, favorable workers' compensation trends, combined with improving bill/pay rate spreads were the primary drivers of the margin expansion. In PeopleScout, higher volumes and utilization of our recruiting staff are leading to improved operating leverage.

Now, I'd like to take a moment to touch on worker supply. Like many companies across the United States, we are experiencing some pressure on worker supply at PeopleReady and PeopleManagement. To proactively address the situation, both segments have launched programs to retain existing associates, re-engage former associates and source new candidates.

For our current associates, we started to provide attendance bonuses and rewards to our top performers. To re-engage, we launched a campaign in states eliminating the federal unemployment programs targeting those who have not worked over the last 18 months. Finally, we are running a JobStack referral program to attract new workers.

For our full-time employees, we are providing incentives to our recruiting team for putting people to work. We expect worker supply to gradually improve during the third quarter as broader federal unemployment program ends for all states and schools reopen. However, we are monitoring the impact of the latest stimulus payments that started on July 15th, focused on providing support for families with children, which could prolong the challenges.

Now let's turn to our results by segment, starting with PeopleReady. PeopleReady is our largest segment representing 58% of trailing 12-month revenue and 64% 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 revenue was up 43% during the quarter versus down 13% in Q1.

PeopleManagement is our second largest segment representing 32% of trailing 12-month revenue and 16% 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, multimillion-dollar onsite or driver relationships. PeopleManagement revenue is reaching pre-pandemic levels with year-over-year growth of 28% in the second quarter versus growth of 7% in Q1.

Turning to our third segment, PeopleScout represents 10% of trailing 12-month revenue and 20% of segment profit. PeopleScout is a global leader in filling permanent positions through our recruitment process outsourcing and managed service provider offerings. PeopleScout revenue is also nearing pre-pandemic levels with year-over-year growth of 106% in the second quarter versus a decline of 13% in Q1. We are very excited about the accelerated pace of their recovery.

Now I'd like to shift gears and update you on our key strategies by segment, starting with PeopleReady. Our most important strategy at PeopleReady is to further digitalize our business model to gain market share and improve the efficiency of our service delivery 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 a leading provider within industrial staffing.

Since rolling out JobStack to our associates in 2017 and our clients in 2018, digital fill rates have increased 3X to nearly 60% with 788,000 shifts filled via the app during the quarter. Our JobStack client user count ended the quarter at 27,100, up 12% versus Q2 2020.

Driving heavy client user growth continues to be a key focus. A heavy client user has 50 or more touches on JobStack per month, whether it's entering an order, rating a worker or approving time. JobStack heavy client users continue to post better year-over-year revenue growth rates compared to the rest of the customer base, with the Q2 2021 growth differential exceeding 40 percentage points on a same customer basis.

This growth differential is largely driven by wallet share takeaways from competitors as heavy client users tell us a major reason they are moving share to PeopleReady is due to JobStack's unique capabilities. Heavy client users are becoming more material in our overall results as they now account for 46% of PeopleReady U.S. on-demand revenue compared to 30% in Q2 2020.

With the foundation of our digital strategy in place, we've expanded our focus on how to better serve existing clients and reach new ones. Combining the strength of our geographic footprint, JobStack technology, and repurposed job roles, PeopleReady is well-positioned to more effectively and efficiently serve clients.

At the end of the first quarter we launched two market pilots that utilize centralized service centers responsible for recruiting, onboarding and local delivery. The service centers increase our accessibility as they operate 85 hours per week versus 60 hours for a typical branch. This enhanced go-to-market approach includes repurposed job roles with the creation of dedicated account managers who are responsible for growing and building client relationships. We believe we will be able to use the cost savings from reducing “non-client facing” roles to more than offset the cost increases from adding more “client facing” roles such as account managers. This fundamental shift in how we deliver our services requires thorough training and change management for our employees. While it is still early, we are gathering key learnings that will improve our operating model, leading to higher digital fill rates, increased productivity and higher customer satisfaction. We'll continue to provide updates as the pilots progress.

Turning to PeopleManagement, our strategy is to focus on execution and grow our client base. Last year we sharpened our vertical focus to target essential manufacturers, and warehouse and distribution clients, and made investments in our sales teams to enhance productivity. With these initiatives implemented, we have broadened the strategy to expand our geographic footprint by targeting more local and underserved markets. We are seeing strong results as PeopleManagement secured $63 million of annualized new business wins so far this year compared to $32 million this time last year. Finally, we are investing in customer and associate care programs in an effort to better serve our clients' needs and improve retention.

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 in-sourcing, with some clients bringing more recruitment functions in-house. Many of the in-house teams were reduced or eliminated during the pandemic, and we are seeing companies return to hybrid and fully outsourced models.

To capitalize, we have made investments in our sales team. We believe there is a big opportunity to increase wallet share at our existing clients and diversify the industry mix within our portfolio by adding new clients. These efforts are already delivering results as shown by the $33 million of annualized new wins secured by PeopleScout so far this year versus $9 million this time last year.

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 2021 was $516 million, representing growth of 44%, driven by new business wins and higher existing client volumes. We posted net income of $16 million, or $0.45 per share, an increase of $24 million compared to a net loss of $8 million in the prior year. Revenue growth, gross margin expansion, cost management and operating leverage contributed to the net income growth.

Adjusted net income was $16 million, or an increase of $21 million, which is less than the increase in GAAP net income, primarily due to $11 million of workforce reduction charges in Q2 2020 that are excluded from adjusted net income. We delivered adjusted EBITDA of $25 million, an increase of $30 million, and adjusted EBITDA margin was up 640 basis points driven by the same items previously mentioned for net income.

Gross margin of 26.4% was up 320 basis points. Our staffing segments contributed 70 basis points of margin expansion aided by lower workers' compensation costs due to favorable development of prior year reserves. Gross margin also benefited from bill rate inflation that exceeded pay rate inflation but was offset by increased sales mix from our energy and industrial business which has a lower gross margin due to the pass-through of transportation and per diem costs.

PeopleScout contributed 250 basis points of expansion with 170 basis points associated with operating leverage from higher volumes. The remaining 80 basis points was due to non-repeating workforce reduction costs incurred in Q2 2020, which are excluded from our adjusted net income and adjusted EBITDA calculations.

Turning to SG&A expense, we delivered another quarter of favorable results. SG&A was up 14% but as a percentage of revenue was down 570 basis points. Excluding the workforce reduction charge in Q2 last year, SG&A was up 24%, which was roughly half the rate of revenue growth, and was down 340 basis points as a percentage of revenue. We continue to balance cost discipline with preserving our operational strengths to ensure we are well-positioned for continued growth. We are also piloting opportunities to further reduce the costs of our PeopleReady branch network through greater use of technology, centralizing work activities and repurposing job roles, while maintaining the strength of our geographic footprint. These pilots will occur throughout 2021, and if successful, could lead to additional efficiencies in 2022. Our effective income tax rate was 19% in Q2.

Turning to our segments, PeopleReady revenue increased 43% with segment profit margin up 590 basis points. Trends improved across most geographies and industries. Year-over-year revenue in our three largest verticals, construction, transportation and manufacturing, improved by over 30 percentage points versus Q1 results. California, our hardest hit geography and largest market, was up 66% versus a decline of 18% in Q1 and hospitality, our hardest hit vertical, doubled in Q2 versus a decline of 34% in Q1. Segment profit margin benefited from lower workers' compensation costs and higher bill rates compared to pay rates, which were partially offset by higher sales mix from our energy and industrial business. Segment margin also benefited from cost management and operating leverage.

PeopleManagement revenue increased 28% while segment profit increased 79% with 60 basis points of margin improvement driven by operating leverage. PeopleManagement had $63 million of annualized new business wins through June, primarily in the retail and transportation industries, with $7 million of new business revenue recorded this quarter and $26 million expected over the remainder of the year.

PeopleScout revenue increased 106% after being down 13% in Q1, with segment profit of $11 million yielding a 16.9% margin versus a loss of $3 million in Q2 last year. Revenue benefited from strong recovery in our hardest-hit industries, including travel and leisure, which grew 200%. New business wins also contributed to revenue growth as PeopleScout delivered $33 million of annualized new wins through June this year versus $9 million in the comparable prior year period. New wins generated $4 million of revenue in Q2 with $20 million expected over the remainder of the year, coming from a variety of industries, including retail, healthcare and transportation. Segment margin expansion was the result of cost management, operating leverage and increased utilization of recruiting staff.

Now let's turn to the balance sheet and cash flows. Our balance sheet is in excellent shape. We finished the quarter with $105 million in cash, no outstanding debt, and an unused credit facility. While our profitability increased compared to Q2 last year, cash flow from operations decreased largely due to higher levels of working capital associated with our revenue growth and an increase in days sales outstanding largely associated with increased sales mix at PeopleScout, which carries a higher days sales outstanding in comparison with the blended average.

Our cash balance will drop in Q3 due to a repayment of $60 million in government payroll taxes that the government allowed businesses to defer last year and about $35 million of additional working capital from sequential revenue growth associated with the seasonal nature of our business and year-over-year revenue growth. For additional details about our outlook for the third quarter and the year, please see our earnings presentation filed today.

Looking forward, we are excited about the possibility of achieving a higher EBITDA margin in this economic cycle versus the last cycle. Our technology strategies provide us with an opportunity to differentiate our services, capture more market share and take advantage of the operating leverage associated with our business model while also creating a more scalable cost structure.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Jeff Silber from BMO Capital Markets. Your line is now open.

Jeffrey M. Silber Q

Analyst, BMO Capital Markets Corp.

Thank you so much. I know you typically provide a chart on intra-quarter trends, I know it may be a little bit difficult this quarter because the year-over-year comparisons are so difficult, but can you at least give us some high-level color how the different businesses gained intra-quarter in the second quarter and how 3Q has started so far?

Derrek L. Gafford A

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

Hey Jeff, it's Derrek here. Yeah, let's start with some of the monthly trends. I'll just start overall for the company here. So where we ended in June was 36%. I'll just give you all three months. April was 48%. May was 50% growth. June was 36% growth. If we talk about what's been going on in July. July revenue growth through the first three weeks was 21%. That's a little bit lower than, of course, where we exited the quarter predominantly because our staffing brands report revenue weekly, but PeopleScout reports on a monthly basis and that was our largest grower and is not included in that mix.

Jeffrey M. Silber Q

Analyst, BMO Capital Markets Corp.

Okay, great. That is really helpful. I appreciate that. And in your prepared remarks, you alluded a few times to build freight – build pay spreads. Excuse me. Can you quantify that and can you also talk about what you're seeing on the wage inflation side as well?

Derrek L. Gafford

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

A

Yeah, sure thing. Worker supply has definitely been having an impact on many parts of the business and we saw it show up in pay rates. So, pay rates were up 10.1% which was an acceleration of over three full percentage points from where we were in Q1. However, we have been passing that on to customers. So revenue or bill rates exceeded pay rate growth. Revenue bill rates came at 10.7% compared to the pay rate inflation of 10.1%.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Q

And are you seeing any pushback in any areas, either vertical areas or geographic areas where clients are not accepting this kind of bill rate inflation?

Derrek L. Gafford

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

A

Jeff, I'll give my commentary here and then Patrick can weigh in. In this area, both when it comes to worker supply and to the pay rates necessary to give these workers, customers have been pretty understanding. I mean, price is always a factor and a very important part of each discussion. But it's a pretty unique place. Customers are seeing it in their businesses. They understand the worker shortage. So, I would say overall, not just for the pay rates, but our ability to deliver a whole roster and a complete, when I say a whole roster, meaning all the positions that have been recruited and the challenges with that, customers have pretty understanding. Patrick, anything you want to add to that?

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

A

Well, I think you hit it pretty well, Derrek. Jeff, we're not seeing – pricing obviously always matters, but we're not seeing a lot of pushback in part because clients are trying to fill their own positions as well. And they know how hard it is. And so, we're just seeing a unique environment right now where demand is high, stronger than in a typical recovery. Plans are optimistic as the lockdown restrictions have largely eased and vaccination rollouts continue to progress. And just the major supply challenge right now that we think is, not a long-term or even a medium-term problem. It's more of a short-term dynamic where supply has artificially been held down for a variety of reasons, whether it's the pandemic or the enhanced unemployment benefits. And as those start to wear off or ease off, we expect supply is going to come back and come back pretty strong over the next couple quarters.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay. That's really helpful. I'll jump back in queue. Thanks so much.

Operator: Your next question comes from the line of Josh Vogel from Sidoti. Your line is now open.

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

Thank you. Good afternoon, Patrick and Derrek. First question, when thinking or looking at JobStack, when you talk about the heavy users, which markets or sector are they in when you look at like construction, transportation, manufacturing or is it one of those in particular or you're seeing it really across the three main ones?

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

A

Well, Josh, this is Patrick. It's really across the board. It's more relevant around the size of the client and the type of work that we're providing for them. The heavy users tend to be the more steady clients, the ones that are larger in their need for contingent labor. Also, one of the things we've noticed is that when there's large burst projects or for clients that run multiple shifts and have short notice in terms of their needs, those tend to be the heaviest users. It doesn't necessarily break down as easy by industry. It's really more of the nature of the demand that they have and the degree of time that they can provide in terms of finding workers. So, we've noticed that clients did have a very short duration in terms of the notice they can give us tend to be the heaviest users, as well as ones that use a lot of volume.

Josh Vogel
Analyst, Sidoti & Co. LLC

Q

Sure, okay. And then just thinking about maybe some of the markets that are less penetrated or further right now. What is your go-to-market strategy with this technology if we're looking at hospitality, food and restaurants? Are you seeing any success there in building up the uses of JobStack with that type of client base?

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

A

Well, specific to your question, significant demand in hospitality because they have a lot of short burst needs, particularly around events, concerts, sporting events, things of that sort. Just maybe stepping back for a moment, big picture, our long-term vision for PeopleReady and JobStack is to transform the way the industry engages workers, 24/7 ordering for clients, sophisticated algorithms that match workers to opportunities, more transparency for workers where they can see the jobs 24/7, more certainty and more efficiency where clients can approve time and rate workers and things of that sort.

So we continue to be really encouraged by JobStack, both on the supply and the demand side. I'll talk a little bit about supply. We're using the technology to communicate important information to our workers, incentives, nudges to check jobs. Lots of in-app marketing and that's helping quite a bit with retention. If you look at the average number of hours that a PeopleReady associate has, those were up 9% year-over-year. So we're getting some additional retention. Also on the supply side, we've talked about some of the things we've done to digitalize onboarding and cut application times or remove friction in the process and we've seen a nice uptick, particularly in the last month or so on applicants.

We're also seeing higher conversion rate of applicants being converted from the top of the funnel to the bottom of the funnel. And then on the demand side, we continue to see healthy growth rates for those heavy users. So it's a big, big area of focus for us and ultimately we have a goal of growing well above industry average once the market normalizes to more historical levels.

Josh Vogel

Analyst, Sidoti & Co. LLC

Q

That's really helpful. Thank you. I wanted to switch gears a little bit maybe and I apologize I hopped on a couple minutes late. So if you covered this, thanks for humoring me. But just higher level, more macro, from an industry-wide perspective, are you seeing larger clients who predominantly did things in-house starting to open up to more outsourcing, especially given the supply constraints? And if that's the case, is this sticky? Do you think this is a potentially structural shift in how they may decide to handle their workforce needs longer term?

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

A

Yeah, thanks Josh. Appreciate the question. Well, as you remember, a couple years back sort of pre-COVID, we had seen some trends where companies were taking portions of their outsourced arrangements and moving them back in-house. So, it wasn't necessarily they were moving everything back in-house, but the pieces, particularly mission-critical type positions.

Coming out of COVID, as we're talking with clients, we've seen a complete 180 on that. A number of our clients that had brought scope back in-house are looking to outsource that again. We've had a number of new wins. We talked a little bit about in the prepared remarks that PeopleScout has more than 3X the wins year-to-date versus last year.

And so we're seeing a lot of first-time buyers that have never outsourced before that are outsourcing. And if there's ever a reminder of having flexibility and a variable cost structure, this pandemic highlighted that. And so, lot of times those we're talking with are recognizing the need that, let's say, it's a good idea to have a variable cost structure against the variable need like hiring and having fixed cost structures with in-house teams for some companies makes sense, but for a lot of companies it doesn't. And so, the ones we've been talking with particularly recently, that are first-time buyers are citing that as a major reason of having a variable cost structure and not building up big fixed cost structure, particularly in an environment like this where there's still some uncertainty.

Josh Vogel

Analyst, Sidoti & Co. LLC

Q

Sure. Good insights there, thanks. And I guess kind of just sticking on the labor supply theme and I always like to ask you this because you really have your finger on the pulse of what's going on in the labor markets. And maybe we're still a bit early on this still, but are you seeing any meaningful signs of easing with supply constraints? And if so, is it industry-specific or are we really just drawing lines between the states that are looking to curtail unemployment benefits or some hiring credits or other benefits, your general thoughts around that?

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

A

You know I think it's early. A lot of the states that have started to ease off the enhanced unemployment benefits, they are really early days in this. And so, I'll share with you a couple of numbers, but just know that you've got to kind of qualify this as being early days. So, one of the early signs we've seen is about a 20% uptick in applications in PeopleManagement as an example where states are ending unemployment benefits earlier than the September 6 deadline that the federal government has put in place. So, that's an early, early indicator that as some of the benefits start to wear off or ease off, that people are going to come back to work.

My view is that there's ample supply, but it's been artificially held down, partly because of the situation where parents aren't dropping the kids off at school, partly health-related concerns and then a very large part is the enhanced unemployment benefits that are going to be rolling off for everybody first week in September and a number of other states a lot sooner. So, our view is that things are going to improve from a supply perspective, there may be some residue left over. People's bank accounts tend to be a little fatter right now, particularly at the lower wage areas. But those will wear off soon enough and our view is that we'll be back to more of a normalized environment in a couple quarters.

Josh Vogel

Analyst, Sidoti & Co. LLC

Q

All right, great. That's helpful. Just one last one. Looking at guidance and thinking about SG&A and internal investments, how much of the expected spend in Q3 and 2021 as a whole, is regular day-to-day operations versus the initiatives geared towards increasing sales resources and declining associate care retention programs? I'm basically just trying to get a sense of the new underlying fixed SG&A base or component going forward for your business.

Derrek L. Gafford

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

A

Yeah, I'll take that one Josh. This is Derrek. How we take a look at this is how are we dealing in operating more efficiently? We're using technology in a much broader sense than we were a couple of years ago. We've made a lot of adjustments to the business and how we run the business and challenged a lot of assumptions. And so if you take – and it's really hard to compare back to 2020 for all the, I guess, obvious reasons of the lumpiness and unique circumstances for everybody in 2020. If we just take our SG&A as a percentage of revenue right now and we compare back to where we were in Q2 2019, we're operating at 30 basis points less and that's about $70 million of revenue.

So we're definitely operating the business in a more efficient way if we take a look forward with the guidance that we've prepared and put out there for the year. If you take a look and kind of run the math on the back half of 2021 and you compare that to the back half of 2019, it's going to be a very similar trend, we believe, to what we posted this quarter. So we thought like we've made a lot of adjustments that are sticking and running the business more efficiently and we're operating in a bit of a new normal state now that will continue to carry for us.

Josh Vogel

Analyst, Sidoti & Co. LLC

Q

All right, great. Well, thank you for taking all my questions.

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

Mark Steven Marcon

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

Q

Good afternoon, I was wondering if you could give us a little bit more of a feel in terms of the monthly trends on PeopleManagement and PeopleScout?

Derrek L. Gafford

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

A

Sure, let me go to that for you Mark. For PeopleManagement, April was up 42%; May was up 32% and June was up 17%. And for PeopleScout, April was up 74%; May up 104%; and June up 138%.

Mark Steven Marcon

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

Q

When we take a look at the guidance from a revenue perspective for the coming quarter, you termed it in kind of a sequential fashion. Should we assume that the bulk of the growth is going to – sequentially is going to be expressed again in PeopleScout? Or how should we think about it in terms of what you're actually seeing? And maybe perhaps it would be beneficial to have PeopleReady as well from a monthly perspective.

Derrek L. Gafford

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

A

Let's finish off the historical information for you and then we'll just talk about – shift our focus to looking forward. So PeopleReady in April was 48%; May, 51%; and June, 35%. So really what we gave in our outlook section, I wouldn't really call it our guidance. We're just giving everybody the math really on how revenue trended sequentially between Q2 and Q3 over recent years, 2020 excluded.

When it comes to the growth rate year-over-year, yeah we would expect those to be stepping down as we're getting into tougher comps. I mean if you want to call them tough. I mean they're progressively – the decline has got progressively less worse as we enter the quarter.

From a – we're talking about five business units – you'll see probably the most falloff in the growth rate at least compared to where we've been the last couple quarters with PeopleManagement only because PeopleManagement has weathered the storm so well. They've recovered their revenue. They're still doing very, very well, whereas PeopleReady has not fully recovered. And so we would expect to see larger growth rates in PeopleReady.

PeopleScout is certainly at the top with this growth rate this quarter. And you take– there's no really expectation on why it would step down sequentially in dollar amount. So the prior year comparison is relatively similar in Q3 of 2020 as it was in Q2 of 2020. So I think it'll – that just that math alone will prove out to show some pretty impressive growth rates continuing for PeopleScout.

Mark Steven Marcon

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

Q

Great. Then it did sound like you're basically just taking what your normal historical sequential growth is as opposed to extrapolating just the last month. Did I hear that correctly?

Derrek L. Gafford A

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

Well, that's really what we've been doing ever since the pandemic hit, Mark. We've not been giving traditional top and bottom line guidance, but I do encourage everyone to go to our Outlook page in the back of our deck. And what we're really doing is we're choosing where we think the most help might be needed both for the quarter and the year and getting some pretty prescriptive direction with some commentary, particularly in the middle of the P&L and letting investors form their own conclusions about the top line of the P&L.

Mark Steven Marcon Q

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

If you were thinking about supply being normal and having fill rates at kind of a normal rate, how much do you think – how much higher do you think revenue would have been during this last quarter if you just track the fill rates?

Derrek L. Gafford A

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

Well, I think if we went just to focus in on PeopleReady. PeopleManagement can get its fill rate. I'm not saying it's as big of an impact on PeopleManagement, for a couple of reasons. It's not because the workers' supply is that much better, but with PeopleManagement, we get more notice on – to fill the job. So if you're working with a week or two weeks of notice, it gives you so much more opportunities to get the job filled versus if you're working with one day or two days or two hours in some circumstances for PeopleReady.

Not only does PeopleManagement get more time to do what I just suggested, to do it on its own, but in the event that it can't do it on its own, it also gives us time – the business time to seek out other staffing companies to help fill that gap. And that's important because we have more preponderance of certain service level agreements with clients that need to be met and we want to make sure that we're meeting those. And coming back to the – so that really leaves you with PeopleReady. I mean, our fill rate at PeopleReady right now is running probably close 15 to 20 points lower than it would have looked if we were looking back to prior to the pandemic or even during the pandemic. So it's had a sizable impact for the PeopleReady business.

Mark Steven Marcon Q

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

And then in the prepared remarks, you mentioned the benefits that went into effect on July 15. Did – was that noticeable when those went into effect?

Derrek L. Gafford
A

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

It's really too soon to tell. We don't think it will have nearly as prominent of effect as we saw with other stimulus checks that were delivered. With the child tax credit of $300 a month versus – for the next 12 months versus getting $3,600 all at once. And our – in our business with some of the lower paid jobs, when folks get $3,600 or if you've got two or three kids, you were to get it all at once. That's a really sizable amount. And not if everyone wants to keep working to build the bank account, that's a pretty healthy spread for a lot of people. So we did see some drop-off in applications with earlier stimulus checks. This time, it's too soon to tell because we're just really right on the cusp of this. But we're not expecting it to be as significant as some of the other stimulus checks that went out.

Mark Steven Marcon
Q

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

Okay, that's good to hear. And then can you just talk a little bit about the new service centers? What sort of impact are those currently having in terms of efficiency? I know it's early days, but how would you characterize that?

Derrek L. Gafford
A

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

Do you want to take that one, Patrick?

A. Patrick Beharelle
A

Director & Chief Executive Officer, TrueBlue, Inc.

Yeah, I can speak to that. Thanks for the question, Mark. You're right, it's early days. These pilots will run into Q4. What we're seeing is early days. We've done really well on managing worker wages in the service centers. Some of the other metrics that we're tracking are mixed right now when we look at revenue and client count and associate count and things of that, sort a little bit of a mixed bag.

One of the things, the whole reason you run pilots for this is to have learnings along the way and then make rapid midcourse correction. So, as we rolled these out at the end of March, we've seen a number of opportunities to become more efficient or more effective. And so, we're making midcourse corrections along the way. And our expectation is that by the time the pilots are complete, we'll be green on all of the key metrics that we're tracking. So, things like associate count, client count, worker wage, margins, overall revenue, things of that sort are – there's many more metrics that we're tracking as well, but when you look at it the main ones, those are the area of focus.

And then if all goes well, our intention is to then roll this out on a much larger scale in 2022. But first, we got to get the metrics to where we want and to support the business case that we put together and we'll keep you all updated as more information becomes available.

Mark Steven Marcon Q

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

Great. And then just in terms of just the number of orders and understand supply has become the key constraint here, but just in terms of order rates on PeopleReady, broadly speaking, would you say that those are continuing to improve, broadly speaking, of each and every quarter even though the year-over-year growth rates are being impacted by the fill rates?

A. Patrick Beharelle A

Director & Chief Executive Officer, TrueBlue, Inc.

One thing is certain, demand is high and stronger than a typical recovery, so orders are very strong. As Derrek mentioned, our fill rates are down about 15 points in PeopleReady versus where they would normally be. And so our view is that as the supply situation starts to correct itself, a lot of those unfilled orders are going to be filled. And so we're pretty optimistic about the demand side now and are optimistic about the supply side improving in Q3, Q4 and beyond. So our view is things are lining up quite nicely.

Mark Steven Marcon Q

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

Great. And are you going to have to spend any more from an SG&A perspective just in terms of meeting the supply-constrained environment? In other words, spend more for recruiting or how should we think about that, particularly if supply should naturally lift with some resumption of normality?

A. Patrick Beharelle A

Director & Chief Executive Officer, TrueBlue, Inc.

Well, I wouldn't expect the costs of recruiting on a per hire basis to change from where they're at right now in terms of being higher. I mean, a lot of that's already built into our run rate. We're definitely having to run some more background checks for the contingent laborers per hire. We're having to spend more money on sourcing of candidates than we otherwise would. But that's all in our run rate already, Mark. So I wouldn't expect to see anything from an SG&A perspective as a percentage of revenue for recruiting going upside down on us.

Mark Steven Marcon

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

Q

Great, thanks for the color.

Operator: I am showing no further questions at this time. Speakers, you may continue.

A. Patrick Beharelle

Director & Chief Executive Officer, TrueBlue, Inc.

Well, thank you operator. In closing, I'd just like to thank our employees, our associates, our clients, our business partners for their efforts throughout the pandemic. And thank you, everyone, for attending. We look forward to speaking with you at our next quarterly earnings call and hope everyone has a great rest of their week and be sure to stay safe.

Operator: This concludes today's conference call. Thank you all for your participation and have a wonderful day. You may all disconnect.