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TrueBlue, Inc. (TBI)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Emma and I'll be your conference operator today. At this time, I would like to welcome everyone to the TrueBlue Third Quarter 2022 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Derrek Gafford, Chief Financial Officer, you may begin your conference.

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, Steve Cooper.

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.

Okay. Let's now turn the call over to Steve.

Steven C. Cooper

Director & Chief Executive Officer, TrueBlue, Inc.

Thank you, Derrek, and welcome everyone to today's call.

Overall, revenue was $576 million or roughly flat compared to Q3 2021. At PeopleReady, demand softened, yet we filled a higher proportion of jobs as worker supply continued to improve. PeopleScout results were solid as hiring volumes at our clients were strong, while PeopleManagement trends held steady. Operating income and margin were higher due to historically wide spreads between bill and pay rates as the labor market remained tight.

PeopleReady revenue for the quarter was down 4%. While demand slowed, worker supply improved, leading to an increase in our job order fill rates. PeopleReady is our largest segment, representing 57% of total trailing 12-month revenue and 57% of total segment profit. PeopleReady is a 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, supported by our JobStack mobile app. PeopleScout revenue was up 10% compared to a year ago. Demand for RPO services remained strong at existing and new clients due to the high number of job openings. Our highest margin segment, PeopleScout, represents 14% of total trailing 12-month revenue and 33% of our total segment profit. PeopleScout is a global leader in filling permanent positions through our recruitment process outsourcing services.

Turning to our third segment, PeopleManagement, revenue growth remained steady, up 4%. Commercial driver services contributed the bulk of the year-over-year expansion. PeopleManagement represents 29% of total trailing 12-month revenue and 10% of total segment profit. PeopleManagement provides on-site industrial staffing and commercial driver services in North America. The essence of a typical PeopleManagement engagement is supplying an outsourced workforce that involves multiyear, multimillion-dollar on-site or driver relationships.

I will now shift the discussion to our strategies before ending with additional views on the current environment. At PeopleReady, a key strategy is to use digitalization to supplement our nationwide branch footprint, gain market share and improve efficiency. The United States temporary day labor market is highly fragmented with the bulk of the market made up of smaller companies in the industrial staffing segment where PeopleReady competes. These smaller, more regional companies are typically not able to invest in digital applications, like our JobStack app.

JobStack provides a unique user experience for our associates and clients, allowing both groups to connect at any time. The application is used by over 90% of our associates and has over 30,000 client users. The majority of our competitors also lack our expansive branch footprint, which spans across most major markets in the United States. This combination is what makes us a leading provider within the on-demand industrial staffing market. We are able to service customers that need a nationwide one-stop shop, in addition to taking care of local clients. JobStack makes it easier for both national accounts and local accounts to access the labor they need when they need it, without all the friction involved in a branch-based business alone.

Turning to PeopleScout, our strategy leverages our strong brand reputation to capture opportunities in a growing industry. Companies today are confronted by people shortages. Our ability to hire large volumes of people enables us to meet the demand for existing clients and has positioned us to capture new clients for long and short-term engagements. As we move forward, we will continue to expand our product offerings to meet the growing needs of our clients in helping them source, onboard, and effectively manage their employees. For PeopleManagement, our strategy is centered around operational execution and geographic expansion. Improving our customer and associate experience is mission number one. We have made targeted investments in these areas to enhance the service levels in an effort to improve retention.

Turning to geographic expansion, within the on-site offering, our business development activities are targeting local and underserved markets, specifically in the Western part of the United States. Meanwhile, we are focused on increasing market share in the Eastern part of the country with the commercial trucking business. With this being my first full quarter back as CEO, I wanted to provide you all with my assessment of the business and our main priorities.

First, I continue to be impressed with our leaders and our people. I've had the opportunity to reengage with all facets of the company. The feedback I have received about the business has been consistent, demand is softening, and labor is tight. The uncertainty surrounding the economy is causing some buyers to pause spending, which is impacting our business in different ways, as Derrek will discuss later. However, with over 10 million job openings throughout the United States, many lower paid, blue collar jobs where we specialize, this implies the labor market will remain tight for some time. Our multitude of services and ability to connect people with work has the team focused and excited about our growth prospects.

People are our number one priority. We know our clients and the industries they serve. The long-term relationships our teams have developed is what makes us great. In times of uncertainty, committing to our employees is ever so important. The tight labor market gives people options. As such, we have doubled down our focus on retaining and developing our teams. This will require us to be diligent about maintaining the appropriate level of staffing needs with the right positions and in the right locations, supplemented with training and resources to ensure success. The result, a client-first mentality defined by excellent customer service and superior delivery. Our goal is to be ready to bounce back quickly when economic uncertainty eases, and it's our people who will make this possible.

This leads me to our next priority, technology. To further enable our people, serve existing clients, and reach new markets, we recognize the importance technology plays. At PeopleScout, we have a differentiated tool in Affinix to service our RPO clients. Over the past year, within PeopleReady, we have been on a journey to update the underlying technology platform. The goal of the transformation is to reduce process friction, which has a cascading effect. Freeing up time enhances employee productivity and allows for more interaction with customers. It also increases the scalability of our business, lowering the cost to deliver our services. When paired with JobStack, we create differentiation and gain a competitive advantage in the markets we service.

Each of our businesses are poised to grow market share, especially within our niche and high margin product offerings. At PeopleReady and PeopleManagement, the opportunity is to accelerate market expansion mainly in the eastern half of the United States within skilled trades and commercial trucking services. These investments pay back quickly and have a proven track record, producing high double-digit returns.

We also have a lot of green space to grow PeopleReady's renewable energy presence. Recently, the Biden Administration passed the Inflation Reduction Act, which provides developers access to tax credits to fund new solar projects. Our long-term client relationships combined with the ability to scale quickly positions us strongly to capture market share.

Finally, at PeopleScout, the sky is the limit for our highest margin business. We see big potential to not only enter fast-growing verticals, such as life sciences and technology, but also find ways to grow our geographic footprint by expanding relationships with our existing client base. We find ourselves in a unique position with this current downturn. Unlike the past recessions, this time we are focused on investing for the future. Don't get me wrong, we will remain disciplined on costs. And with the right strategies and investments, we will be well-positioned to capitalize on the rebound and maximize profit across the cycle to achieve our long-term goals.

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

Derrek L. Gafford

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

Thank you, Steve. Total revenue for Q3 2022 was $576 million, or roughly flat to Q3 last year. PeopleReady revenue was down, while revenue grew at PeopleScout and PeopleManagement. Lower workers' compensation expense and a positive spread between bill and pay rate inflation led to bottom line growth and margin expansion.

Net income grew 11% and adjusted EBITDA grew 18%, while net income and adjusted EBITDA margins grew 40 and 90 basis points, respectively. Adjusted EBITDA margin expanded more than net income margin due to PeopleReady technology upgrade costs this year, which were excluded from our adjusted results.

Gross margin for Q3 2022 of 27.1% was up 170 basis points. Key contributors included 110 basis points from lower workers' compensation expense and 100 basis points from bill/pay spreads, which were partially offset by a higher proportion of revenue contribution from our lower margin PeopleManagement business. The workers' compensation results are from a combination of favorable development of prior year reserves and fewer workplace injuries.

Q3 2022 SG&A increased 5%, which is less than the 10% increase in Q2 this year due to cost management actions given the current level of demand for our services. Our effective income tax rate was 17%, which was in line with our expectations.

Before discussing the performance metrics of each of our segments, I'd like to provide some big picture commentary on how the current environment is impacting our business. Inflation and higher interest rates are clearly causing consumers and businesses to rethink their level of consumption and investment, resulting in demand uncertainty for many businesses. Demand uncertainty is translating into future workforce uncertainty for many of our customers, which is impacting our three lines of business, albeit in slightly different ways.

The demand impact is most noticeable in our PeopleReady business. In a slowing or accelerating economy, we typically see the revenue impact first in this business due to the short duration of job assignments, combined with the fact that many customers rely on PeopleReady as a variable supplement to their core workforce. On the flip side, the short duration of job assignments allows PeopleReady to continuously reprice its business in a favorable way given the talent shortages that exist. In fact, the favorable spread between bill and pay rate inflation this quarter was the largest I have seen in my 20-year history with the company.

At PeopleManagement, many of our customers use our services as an integrated part of their core workforce. Demand changes here are less volatile in comparison with PeopleReady as customers often vary the use of PeopleManagement services in tandem with adjustments to their core workforce. As a result, recent demand trends have been more steady than at PeopleReady. However, we have seen uncertainty when it comes to new customers. While the pipeline for new customers remains healthy, some are hesitating on making labor supplier changes due to uncertainty about their future workforce needs.

Similar to PeopleManagement, potential new PeopleScout customers are hesitant to make commitments on multi-year deals, but demand for new short-term projects has been very strong this year and remains healthy. With record levels of open jobs in the economy, employees have many choices, resulting in higher levels of employee turnover for our clients, creating additional demand from our customers.

Now, let's turn to the specific results of our segments. PeopleReady revenue decreased 4% while segment profit increased 16% and segment profit margin was up 150 basis points. Improving job order fill rates helped offset the decline in demand, improving by 5 points from Q2 to Q3 this year. Segment profit and the related margin growth came from lower workers' compensation expense and favorable bill/pay spreads. Bill rates grew 9.7% while pay rates grew 7.5%.

PeopleScout revenue and segment profit increased 10% and segment profit margin was relatively flat. Growth was driven by higher volume within our core RPO business as well as short-term RPO projects. PeopleManagement revenue increased 4%, with segment profit up 89%, and segment profit margin was up 120 basis points. Commercial driver services contributed the majority of the year-over-year revenue performance. Segment profit and margin were up due to an increase in mix from commercial driving and lower recruiting and candidate marketing costs, which were at a high point last year due to worker supply challenges.

Now let's turn to the balance sheet and cash flows. We finished the quarter with $44 million in cash and no outstanding debt. The business is producing strong cash flows with year-to-date cash flow from operations totaling $80 million.

Now I'd like to take a moment to provide additional color on a couple forward-looking revenue items. For Q4 this year, we expect a revenue decline of 12% to 8% compared to Q4 last year. In Q4 last year, PeopleReady benefited from a demand surge across the business as our customers found themselves in desperate need for labor during the peak of the post-COVID recovery. This surge is not expected to reoccur this year, which will create a 9% headwind for total company revenue in Q4 this year. In October, our weekly sequential revenue trends are holding steady in comparison with typical historical patterns.

I'd also like to point out a couple things for 2023. In Q1 next year, revenue growth will be suppressed for the same reason as Q4 this year, which will create a 6% drag for Q1 2023. Finally, the 2023 fiscal year will have 53 weeks, which is a typical occurrence every five to six years, since we operate on a 52-week year versus a calendar year. This extra week will provide incremental revenue for the year of $22 million to $27 million, but will not contribute additional profit due to it being an annual low point for weekly revenue. For additional details on our outlook for the fourth quarter, please see our earnings presentation filed today.

This concludes our prepared remarks. Operator, please open the call now for questions.

QUESTION AND ANSWER SECTION

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

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Thank you so much. Appreciate all the detail you gave in your prepared remarks. Is it possible to get a little bit more color by end market vertical? I'm just wondering if there are specific end markets doing better or worse than others.

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

A

Hey, Jeff, thanks for that question. It's Derrek here, and I'll take that question. From a pressure perspective, when it comes to results, the two areas where we're seeing the most of that are in retail and hospitality. Most of that is because we're coming up on tougher prior year comps. But also part of that is because we've seen some softening in both of those markets, particularly retail.

To give you some perspective on this, in retail, we were up 16% in Q2. We were down 7% in Q3. And our hospitality business is still growing, is up mid-single-digit. But that's been a really big grower for us for several quarters, up over 50%. On the other side of the equation, construction and manufacturing actually held steady. The growth rates or minor decline, depending on which one of those industries you pick, stayed pretty steady with where it was in Q2.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay. That's really helpful. I appreciate that. You also talked a little bit about what's going on in October. I'm just wondering if we can step back into last quarter and talk about intra-quarter trends, if possible, by the different lines of business.

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

A

Sure. So, if we're talking intra-quarter trends, PeopleScout stayed at steady at about 10% all throughout the quarter. PeopleManagement, steady as well. June, July was up 4%, 2% as they exited the quarter. And PeopleReady is where we saw the most step-down, going from a minus 2% in July to minus 6% at the end of the quarter. Going into October though, our staffing businesses are holding pretty steady with the typical sequential trends that we would expect. So we haven't seen any softening in the run rates.

From a year-over-year perspective, the declines are getting larger. We're running probably about 8% down in the first three weeks of October, but that's not from any softening in our weekly trends, if we compare to typical historical patterns. It's more about the prior year comparisons that I pointed out in my prepared comments.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay. That's helpful. And if I can just sneak in one more. Based on that, I'm just curious what's implied in your revenue guidance for the quarter. And I do appreciate you guys giving us revenue guidance once again.

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

A

Yeah. You bet. So, the midpoint of our guidance for Q4 is minus 10%. And the trends that we're seeing in October are right in line with our expectations of where we should be in October compared to the guidance that we gave.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay. Great. I'll jump back in the queue. Thanks so much.

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

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

Q

Good afternoon. I just want to follow on from Jeff's questions, just with regards to the midpoint in terms of being down 10%, how would you expect that to break down between PeopleReady, PeopleManagement, and PeopleScout? And is all of the one-time drag all concentrated in PeopleReady in terms of what you cited?

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

A

Yes. PeopleReady will be above that 10%. It'd be in the low teens, PeopleManagement flattish, and PeopleScout still growing. What was the second part of your question, Mark?

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

Q

Just ensuring that all of the drag from the one, particularly large client that you don't expect to replicate that that's all in PeopleReady.

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

A

The vast majority of it is there, Mark. We also had a nice sequential step-up in our PeopleScout run rate from Q3 to Q4 as we brought on a pretty sizable customer. So, the headwind increases there as well in that segment. But from a total company perspective, the overwhelming majority, it's in the PeopleReady business.

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

Q

Okay. And so PeopleReady exclusive of that drag would be more like down 3-ish?

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

A

Yeah. That's right. Excluding that would be down 3- to 4-ish.

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

Q

And is that because your expectation is, hey, we're going to – the economy is softening. Obviously, there is lots of uncertainty. And so, the expectation is that those trends should continue and particularly in retail and also perhaps in hospitality and some of the more cyclically sensitive end markets?

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

A

Well, we don't have a lot of softening built up. I mean, we exited the quarter PeopleReady at 6%. There was a little bit of prior year headwind in there from some of the comps, but we exited at 6%. So, we're saying, going into Q4, it'll be around 3% or 4%. So it's a pretty steady case as far as from what we've seen in October and is building off of that. We didn't throw a lot in for additional softening. We just tried to give it to you based up what we're seeing.

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

Q

Okay. And then with regards to PeopleScout, sequentially, there was a fairly significant difference between Q2 versus Q3. Were there any end markets that ended up having a change of pace or how should we think about this type of sequential trend?

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

A

Yeah. I'm glad you asked that question. So PeopleScout was down sequentially $12 million. And there's really two things going on there. One, there's less than a handful of clients that reduce their spend in Q3 compared to Q2. However, Q2 was an all-time peak for their businesses. So, I would say, it's less off of – more of coming off of a peak than any fundamental softening in their businesses. Actually, the businesses that I just – that less than a handful of clients, their business looks quite strong. However, there is one client that makes up the other half. I would put this client in the category of being somewhat of a luxury retailer. And their business is suffering. They are quite high on inventory and they are facing their own host of demand challenges as consumers ship down to lower cost brands, given what's going on with inflation right now.

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

Q

Yeah. Great. Okay. And then as we think about just the margin impacts you've called out, you obviously had a benefit from workers' comp, which you've had in multiple years. How are you thinking about that impact in terms of the fourth quarter? And are there any considerations that we should put in place for next year as we think about that?

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

A

Sure. Well, there's probably three things to think about here. I'm just going to paint this big picture. Some of it will also cascade into a fourth quarter conversation. When we take a step back from our performance this year, I'm going to focus in right here on gross margin. We've had a pretty good year when it comes to favorable development on our workers' compensation reserves. That's helped reduce workers' compensation this year year-to-date compared to the same period last year by about 50 basis points. Ultimately, that's not something that's sustainable to prior-year reserves so you could expect to see that go the other way at some point.

From a pricing perspective, that's been very strong for us. We're running – there's 100 basis points of positive gross margin contribution this quarter really all from PeopleReady in the favorable bill to pay spreads that we talked about in the prepared comments. If we were to do nothing and just kind of hold our ground right now, that will probably end up being around 50 basis points for next year. That's just the math. We did nothing. I'm not giving any guidance there.

Now obviously, if we get into a deeper, darker recession and there's a bunch of job losses, I mean, that's not what we're thinking right now. But if that were to be the case, that could go the other way. And then you've got with the PeopleReady dynamic right now with the revenue in decline. Our PeopleManagement business is taking up a larger proportion of the sales mix and that lower margin business is having a negative impact on gross margin of about 30 to 40 basis points. So I suspect that'd be a reasonable assumption for that to continue, if you continue to have in your estimates, the PeopleManagement revenue trends better than the people – or excuse me, the PeopleManagement trends better than the PeopleReady trends.

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

Q

That's very helpful. And then with regards to next year, how are you thinking about managing your own head count, own expenses and capital allocation, given the uncertainty in the environment?

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

A

Well, I'm glad you asked this question. When we're growing we're investing and when we're not growing we're making adjustments. And you've seen in our trends this year, SG&A was up 10% in Q2, it was 5% here in Q3. And the midpoint of our SG&A guidance for Q4 is for it to be down 5%. So we'll continue to make adjustments. However, they might not be as pronounced as they have been in prior recessions. I think we've kind of been an industry leader when it's come to cost cuts. And we made $40 million of reductions in the PeopleReady business in 2000, most of those are still with us.

So, when we take a look at our revenue per employee at PeopleReady, it's running 20% to 25% higher than it did before COVID hit. That sounds great from a productivity perspective, of course, but it also has us wondering if we or if that's trending out to be a net negative for us in the amount of gross profit dollars we could be producing in comparison with some of the expense that we're saving on the staffing side. So that's to say, as we go into next year, we'll make some adjustments, but it might not be as much as we have in the past. If we get into a deeper, darker recession, we would re-evaluate that. But the way that we're looking at it is, as we go into recession, our responsibility is to take some actions to help mitigate the drop in profitability.

But the big picture is, is we need to maximize profit across the whole economic cycle. And we're feeling, if it's a reasonably shallow recession, you just won't see much of that cost cutting on the PeopleReady side. We may actually make some investments there to fill some positions that we've got open, particularly with our branch managers.

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

Q

Okay. And what about capital allocation in terms of like buybacks? Didn't look like you bought back anything during the quarter.

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

A

Yeah. From a capital allocation perspective, we're making sure the balance sheet stays strong, but we do like to return excess capital back to our shareholders and we like to do it at favorable prices. So, we're going to keep an eye on both of those and make decisions as we move forward. From an acquisition perspective, we're not particularly interested in doing any acquisitions in the staffing side of the business. Our strategies there are really all about making better use of the assets that we've got by digitalizing the businesses.

Now over on the RPO side, that's a different story. We would be interested in acquisitions there and increasing our mix of white collar work that we do professional. We have quite a bit of that already. So, we really like the secular trends in technology. We like the secular trends in life sciences. So, additions there could really increase our Street credibility on new deals and we'd be interested in pursuing something on that side for the right price.

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

Q

Great. Thank you.

Operator: Your next question comes from the line of Kartik Mehta with Northcoast Research. Your line is now open.

Jack Boyle
Analyst, Northcoast Research Partners LLC

Q

Good evening. This is Jack Boyle in place of Kartik Mehta. Just have a quick question in going with the demand there. Are you guys seeing any difference amongst your larger or smaller clients in their demand behaviors, if you could give us a little bit of color on that?

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

A

I'll go ahead and take that one and, Steve, if you want to add any color, feel free. So when it comes to the differences between large customers and small customers, what we're seeing with our larger customers on our PeopleManagement business, our PeopleScout business, is less about movements in their use of our services. That's been holding pretty steady. Where we've been seeing more hesitation is new deals. Those larger customers have – that are in our pipeline, many have been hesitating. They're hesitant to make a choice in changing providers with all the uncertainty going on, they don't know what their demand is in some cases, which means that they don't know what their workforce needs are.

Now keep in mind, those two businesses, we're primarily serving customers in their core workforce. They vary their needs somewhat up and down with their core workforce. Over on the PeopleReady side though, we have been seeing, I would say, equal proportions of softening between both small customers and large customers. And as you know, with that business, that's more of a – many of the customers use us as a variable supplement there. And so it's one of the first things that gets turned off as things start slowing economically and one of the first things that get turned back on.

Jack Boyle
Analyst, Northcoast Research Partners LLC

Q

Thank you. And just as a follow-up, are you seeing any difference amongst changes in bill spreads amongst some of the different job positions that you were mentioning just a few moments ago?

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

Well, our bill and pay rates that we quote, it's all out of the PeopleReady business, and we've been getting equal benefit on both sides of the house with large customers and small customers, but more benefit with small customers. In those particular circumstances, we're often dealing with the business owner, an operations manager, versus dealing with a purchasing department. But with virtually all customers, we've been getting the pay rates pushed through, that part hasn't been a problem getting it through our bill rates, and we're getting some extra spread with both small and large customers, but a little more with our smaller customers.

Jack Boyle
Analyst, Northcoast Research Partners LLC
Q

Great. I appreciate the color. Thank you.

Operator: Your next question comes from the line of Marc Riddick with Sidoti. Your line is now open.

Marc Riddick
Analyst, Sidoti & Co. LLC
Q

Hey. Good afternoon.

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

Hey, Marc.

Marc Riddick
Analyst, Sidoti & Co. LLC
Q

So, first of all, I want to thank you for all the detail that you've already provided and you've covered quite a bit between the slides and the prior Q&A. I was wondering if you could talk a little bit about maybe if there are any misperceptions or misunderstandings that you think you're seeing out there as far as what either investors may be thinking of or maybe some of your clients as to what tends to take place going into a recession and maybe versus what's actually taking place. And maybe you could sort of talk a little bit about if you feel as though some folks are off on anything in particular, it would sort of be helpful to hear your thoughts there.

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

Well, Marc, I'll start off and let Derrek fill in the gaps on some of this, but it's definitely different than different recessions. I think we mentioned that in our last quarter. And as we're trying to plan our business and trying to see what our clients are doing, everyone's just trying to grasp how deep and long this might be. And Derrek just mentioned in the last question that we're playing the card here that we want the bounce back of impact.

And so, as we listen to our clients and the people that we're aligning ourselves with is to be ready for them and make sure that our business is solid. And so, not cutting as deep as we might have in past recessions is really important to us. And that's all based on the question you've asked here is what's going on and how deep it might be and what might be the outcome of this. It's a real mixed signal that growth still seems to be available in some sectors, and obviously in others it's still a little bit steeper. Derrek talked about retail, and they're making some adjustments and not understanding how the holiday is going to hit.

But as far as our alignment with our clients, we just have to stay really close at a time like this. And our commitment to our clients and our people through this coming recession is we will stay nimble, yet we're not going to slash like we have in the past. I think our clients are happy about hearing that, knowing that we will be here, we will be prepared, and we're going to be ready to bounce with them. It's good for our shareholders, but it's really good for the client situation that we have. So we don't feel disconnected with our clients, and all the information we've shared today is definitely client-driven through lots of conversations and staying close to the data around there.

I'll let Derrek answer the question more about the Street and the investors, and if we're misaligned there, but we feel really connected to where our clients are.

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

A

Well, Marc, from an investor perspective, I don't think there's any big callouts where I see anything where there's misalignment. I guess, we'll see as we go into the fourth quarter if there's any of that. I think everybody, including the markets, everybody is just looking at information week by week and is guessing one way or the other. But I don't see any fundamentals that are off in our alignment.

Marc Riddick
Analyst, Sidoti & Co. LLC

Q

Do you think that there's a – given the mix of business that you have now versus in the past and do you think there's different flows of information that you're getting now that's more beneficial than maybe it might have been in historical pullbacks?

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

A

That's definitely true, Marc, because the size of accounts that we work with it's much larger than it's been in any other time. Not only because PeopleScout has grown and PeopleManagement continues to grow even in this tough market, and those serve larger accounts than our average account of PeopleReady. So, those two facts drive the type and size of clients. But at PeopleReadyin general sales our national account business has grown more than our small account business really over the last 10 years, 10 or 12 years. So, the larger the account, the more sophisticated account manager we have on-site and the more information we get out of those clients. And it's easier for us to align and be prepared with those accounts. So, yes, very insightful question Marc that you've asked.

Marc Riddick
Analyst, Sidoti & Co. LLC

Q

I appreciate it. Thank you. It seems to make a lot of sense that you'd have sort of a better seat at the table today than maybe in the past, as far as -and maybe improving visibility. And then finally, I guess, maybe could talk a little bit about the pricing dynamic. This was touched on a little bit earlier, but maybe you could expand on it a little bit. But if you could talk a bit about the opportunities that may still continue to be out there because, yes, we've got macroeconomic challenges, but there is still sort of this pricing balance that's still taking place. And maybe we can talk a little bit more about that.

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

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Sure. I'll take the front part of that. And Steve can jump in if he has any additional color he'd like to add. So we're at an interesting part here in the economy. We've had a couple quarters of negative GDP. We could be in for some more of that next year. Yet, here we sit with 10 million open jobs and many of which are lower paid jobs. And then, they're in blue collar fields in which we serve at PeopleReady that's where the pricing is coming from. On top of that, you've got an increasing preference amongst employees to work from home. But the types of positions that we're placing can't be done from home, which is putting even more pressure on an already tight labor pool.

So, when we look ahead to the future, we just don't see anything changing that dynamic. Sure, there could be a blip next year if we get into a bad recession. But I'm talking longer term what would change that. We don't see anything fundamentally changing that. So that scarcity of talent, it gives us some more pricing power in these discussions. And we've got a very disciplined team with a very disciplined plan to make sure that we are appropriately pricing our business on the PeopleReady side in scale with the availability of talent in the marketplace.

Marc Riddick
Analyst, Sidoti & Co. LLC

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Very encouraging. I appreciate it. Thank you very much for all the commentary.

Operator: There are no further questions at this time. Mr. Steve Cooper, I turn the call back over to you.

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

Well, thank you, Emma, and thank you, everyone, for joining us today. As you can tell, we are excited about the opportunities ahead to drive growth even in a difficult market. But as Derrek was just visiting with you about the continued tight labor markets, we feel well-positioned. Now we got to work through the current situation and when that growth will come. But with a client-first mentality, differentiated technology, we really believe we've got the opportunity to grow our market share through the recession, but definitely coming out of the recession with the strategies that we are creating. We appreciate your interest in TrueBlue. Don't hesitate to reach out if you have any additional questions. And thanks again.

Operator: This concludes today's conference call. Thank you for attending. You may now disconnect.