

TrueBlue, Inc.
Fourth Quarter 2022 Earnings Call
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Corrected Transcript

COMPANY PARTICIPANTS

Derrek Gafford – Chief Financial Officer
Steve Cooper – Chief Executive Officer
Taryn Owen – President and Chief Operating Officer

OTHER PARTICIPANTS

Kartik Mehta – Northcoast Research (Analyst)
Jeff Silber – BMO Markets (Analyst)
Mark Marcon – Baird (Analyst)
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MANAGEMENT DISCUSSION SECTION

Operator

Greetings. Welcome to TrueBlue Fourth Quarter 2022 Earnings Call.

At this time, all participants are in a listen only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions]

Please note, this conference is being recorded. I will now turn the conference over to Derrek Gafford, Chief Financial Officer. Thank you, you may begin.

Derrek Gafford

Good afternoon everyone, and thank you for joining today's call. I'm joined by our Chief Executive Officer, Steve Cooper, and our President and Chief Operating Officer, Taryn Owen.

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, now let's turn the call over to Steve.

Steve Cooper

Thank you Derrek, and welcome everyone to today's call. First, I want to welcome Taryn Owen to the call. Taryn joined PeopleScout in 2010 and has served as President of PeopleScout, since 2012.

Taryn has also served as President of PeopleReady, since 2019. In 2022, Taryn became President and Chief Operating Officer of TrueBlue. In this new role, Taryn is responsible for all operating brands, along with our people and technology strategies.

We plan to have Taryn join us, going forward, to offer additional insight into our operational performance, along with our people and technology strategies.

Before discussing our fourth quarter results, I am going to take a moment to reflect on 2022. The year was marked by one of change, not only at TrueBlue, but also within the business environment.

Since returning as CEO in June, what has been clear is the strength of our people, who possess an unwavering commitment to serve our clients and the people we put to work.

As we started the year, demand for our services was high, as clients needed supplemental labor to support growth. As the year progressed, the impact of inflation, combined with higher interest rates, fueled economic uncertainty, leading certain buyers to take a wait and see approach to hiring.

However, the labor market has remained historically tight with over 10 million job openings across the United States, many of which are for blue collar positions in which we specialize.

Despite the economy slowing in 2022, I am pleased with our performance over the past 12 months with revenue growth of 4% and operating income growth of 5%.

Moving onto results for the quarter. Total revenue was \$558 million, down 10%, compared to Q4 2021. Results across the business segments were mixed. We saw steady underlying revenue trends at PeopleReady and at PeopleManagement in Q4. At PeopleScout, we started to see the need for permanent staff at our clients begin to slow.

While operating income and margin were lower due to the decline in revenue, we maintained pricing discipline at our staffing segments and remained focused on costs, across the company.

Turning to the segments, PeopleReady is our largest segment. It represents 57% of total trailing twelve-month revenue and 59% 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, along with consolidated service centers, both supported by our JobStack mobile app.

Revenue for the quarter was down 13%. If you recall, in the fourth quarter of 2021, PeopleReady benefited from a demand surge across the business, as our customers found themselves in desperate need for labor during the peak of a post-COVID recovery creating a year-over-year headwind, this year.

Setting this factor aside, our sequential revenue trends remained consistent with typical historical patterns.

PeopleScout is our highest margin segment, representing 14% of total trailing-twelve-month revenue and 30% of total segment profit. PeopleScout is a global leader in filling permanent positions, through our recruitment process outsourcing services.

PeopleScout revenue declined 16% in Q4, this year. Changes in demand for RPO services typically lag our traditional staffing business. We are seeing this dynamic play out, today, which is being compounded by more normalized hiring volumes.

PeopleManagement represents 29% of total trailing-twelve-month revenue and 11% of total segment profit. PeopleManagement provides onsite 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 onsite and driver relationships.

Revenue was down 2% in Q4, with monthly revenue trends holding steady throughout the quarter.

I am going to spend the next few minutes talking about our strategies and will then pass things over to Taryn to talk about a couple of our operating priorities for 2023.

Our strategy at PeopleReady is to digitize the business model to 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 operates.

These smaller, more regional companies not only lack an expansive branch network, but also are typically unable to invest in digital applications, like JobStack.

With over 90% associate adoption and 30,000 plus client users, JobStack provides a frictionless user-experience for associates and clients and has driven operational efficiencies. The technology and the brick-and-mortar combination makes us a one-stop shop for national and local accounts and is what makes us a leading provider, within the on-demand industrial staffing market.

We believe the market for general labor has the best opportunity for digitalization, as it is less complex than other types of staffing and by further investing in JobStack, we will be able to increase our traction and improve our appeal with clients and associates.

At PeopleScout, our aim is to capitalize on a strong brand reputation and ability to hire in high volumes to gain market share within the RPO industry that has consistently produced double-digit annual revenue growth in favorable economic conditions.

In 2022, PeopleScout achieved record revenue, as companies sought our expertise to find talent in tight labor markets. A big reason for the success was Affinix, our recruiting platform, which has allowed us to place better talent, faster.

As we move forward, we plan to further diversify our hiring mix and target high growth sectors, such as life sciences and technology.

Our positive track-record penetrating healthcare, depth of experience and Affinix make this possible.

PeopleManagement's strategy is to supplement our traditional onsite staffing services with higher margin product offerings, like onsite workflow solutions and commercial trucking and expand, geographically, within the United States to increase market share.

Now, I would like to turn the call over to Taryn, who will discuss specifics on some key priorities, as we enter 2023.

Taryn Owen

Thank you, Steve. I am pleased to be here, today, to provide some insight on key priorities that are underpinning our strategy.

Before I get into the details, I want to share some bigger picture perspective on how we are approaching our priorities. As Steve mentioned, we have been on a multi-year journey to digitalize our business.

This strategy is based on worker expectations for fast and frictionless access to jobs and client requirements for efficient access to talent and to recruiting and staffing platforms that offer a superior candidate experience.

At the same time, we are a people business, and our relationships with our clients, candidates, and associates remain essential.

Our field team members, salespeople, and recruiters all play a vital role in building those relationships, and we are working hard to ensure that our teams have the tools and resources they need to succeed.

By striking the right balance between relationship-driven service and technology enablement, we will remain well-positioned to help our clients access the talent they need, through our on-demand and outsourced solutions.

So, it should come as no surprise for 2023, that our people and technology will remain the primary focus for TrueBlue. We are a people business, so ensuring that we have an engaged and high performing team is a top priority.

In order to attract and retain talent, we continue to build and enhance programs designed to enrich our employee experience and to emphasize learning and development. We are also making focused investments in new positions to maintain sustainable staffing levels and strengthen our ability to deliver the services our customers expect.

We are augmenting learning paths and development planning, across the business. For instance, an important focus in 2023 will be ensuring our sales training is scalable and repeatable in all sales roles, throughout the organization.

With this training, we emphasize effective client interactions and win angles, as well as a thoughtful approach to driving repeat business and customer reactivation. Coupled with training and development are targeted investments in field-based positions to provide greater geographic and vertical coverage.

At PeopleReady, we are placing account managers in new markets to capitalize on staffing demand in skilled trades. We are also providing our branch managers with expanded sales training and increasing their capacity to sell our services.

At PeopleManagement, we will continue to target market expansions to respond to ongoing demand for drivers.

And finally, at PeopleScout, we are augmenting our sales team to enable greater specialization in the healthcare vertical. These investments are directed towards increasing sales activity and enabling operational excellence.

This will enable us to capture topline growth in the short-term and will ensure that we are well-positioned to expand market share, when our customers return to growth.

Now, shifting to technology. It is imperative we continue to invest in platforms to better service our clients, attract workers, and support our people. Through our PeopleReady JobStack application and PeopleScout Affinix recruiting platform, we have brought differentiated experiences to those we serve.

With JobStack, we are focused on improving the associate experience in the near term. We are making upgrades to the application, which will allow associates to register faster and reduce the time it takes to get them to work.

We are improving the ease of time entry, so our associates can be paid more quickly.

And finally, we will be introducing conditional dispatches. This functionality allows associates to accept a job prior to fulfilling all requirements, such as documentation of a specific certification and to, subsequently, be dispatched, once they have met the requirement.

These product enhancements are aimed at improving the quality and quantity of supply. They position us to improve associate retention and increase our client fill rates, both of which will lead to higher customer satisfaction and, ultimately, more wallet share.

Affinix is our PeopleScout recruiting platform designed to meet candidate expectations for a seamless experience. Affinix combines many facets of the recruiting process, including recruitment marketing, applicant tracking, candidate relationship management, and interviewing to quickly bring a highly qualified talent pool to our clients.

Affinix has been instrumental in securing new client wins, renewals and expansions. And as we look forward, the relevance of Affinix will continue to increase, as clients further prioritize the candidate experience, providing us with a catalyst for future growth.

I look forward to providing an update on the progress we make on both fronts on future calls. I'll now pass the call over to Derrek, who will share further details around our financial results.

Derrek Gafford

Thank you, Taryn. Total revenue for Q4 2022 was \$558 million, a decrease of 10%, compared to Q4 last year.

As Steve mentioned, PeopleReady benefited from a demand surge in the prior year period, as the peak of the post-COVID recovery left our customers in desperate need for labor.

As expected, the surge did not repeat this year, contributing 6 percentage points of total revenue decline, year-over-year. The remaining 4-point decline reflects the company's underlying revenue trend, a decrease from our third quarter 2022 total revenue results, which were flat.

In the fourth quarter, our PeopleScout business experienced lower volume from existing clients and, to a lesser extent, so did our PeopleManagement business.

As you might recall, our PeopleReady business was the first business unit to see a meaningful reduction in demand, earlier this year. PeopleReady is typically where we first see an impact from macroeconomic conditions, given the short-duration and supplemental nature of the job assignments.

We were pleased to see stable weekly sequential revenue trends for PeopleReady during the fourth quarter that were in line with typical historical patterns, which have continued into January.

Net income declined 65% and adjusted EBITDA declined 42%, while net income and adjusted EBITDA margins declined 190 and 200 basis points, respectively.

The decline in profitability was primarily driven by the revenue decline, operational deleveraging associated with the revenue decline, and changes to business mix, given the larger drop in revenue within our PeopleScout and PeopleReady businesses, which carry a higher margin than our PeopleManagement business.

Adjusted EBITDA margin contracted less than net income margin, due to certain PeopleReady technology costs, which were excluded from our adjusted results.

Gross margin for Q4 2022 of 26.5% was down 30 basis points. As mentioned earlier, a change in business mix had a contracting impact on gross margin, which was partially offset by lower workers' compensation expense and a positive bill / pay spread.

The better workers' compensation results are from a combination of favorable development on prior year reserves and fewer workplace injuries, this year. The positive bill / pay spread results are due to disciplined pricing efforts in our PeopleReady business.

SG&A decreased \$4 million or 3%, compared to Q4 last year, as we remain focused on cost management. SG&A increased as a percentage of revenue, due to operational deleveraging associated with the revenue decline.

Our effective income tax rate was a benefit of 1%, due to hiring tax credits exceeding the income tax expense associated with our pre-tax income.

Now, let's turn to the specific results of our segments. PeopleReady revenue decreased 13%, while segment profit decreased 18%, and segment profit margin was down 50 basis points. As we've mentioned, PeopleReady benefited from a demand surge in the prior year period, which accounted for 11 points of the year-over-year decline.

The remaining decline of 2 points reflects PeopleReady's underlying revenue trend for the quarter, which was roughly in line with the total revenue decline for this business unit in Q3 2022.

The drop in segment profit and related margin came from the revenue decline and operational deleveraging, which were partially offset by lower workers' compensation expense and favorable bill / pay spreads.

Pay-rate inflation in the PeopleReady business has moderated during the back half of 2022, yet bill / pay spreads have continued to be robust. Bill rates grew 8.4%, while pay rates grew 6.4%, resulting in a positive spread of 200 basis points.

PeopleScout revenue decreased 16%, while segment profit decreased 78%, and segment profit margin was down 10 percentage points.

During the quarter, we saw RPO business volumes at some clients revert back to pre-COVID levels, while others reduced hiring as a result of the macro-economic environment.

In addition, we made a revenue reserve adjustment, which dropped straight to the bottom line. Segment profit and related margin were down due to the revenue decline, revenue reserve adjustment and operational deleveraging.

PeopleManagement revenue decreased 2%, while segment profit decreased 8%, and segment profit margin was down 10 basis points.

Monthly revenue trends were steady during the quarter performing in line with historical patterns.

The decline in segment profit and related margin was mainly due to the decrease in revenue.

Now, let's turn to the balance sheet and cash flows. We finished the year with \$72 million in cash and no outstanding debt. The business is producing strong cash flow with full year cash flow from operations totaling \$121 million, and we returned \$61 million of capital through share repurchases during the year, leaving \$89 million authorized.

Now, I'd like to take a moment to provide additional color on some forward-looking items. We expect a revenue decline of 18% to 13% in Q1 2023. Similar to Q4 of 2022, Q1 of

2023 is also facing a demand surge of 7% in the prior period comparison, which translates into an underlying revenue decline of 8%, based on the midpoint of our Q1 2023 outlook.

The Q1 2023 underlying revenue decline is expected to be a bit larger than it was in Q4 2022. This is primarily due to an expectation of less year-over-year growth in our green energy business in Q1 2023, associated with the inherent lumpiness in the timing of projects, rather than a more pessimistic view of future revenue opportunities.

As we look forward, Q2 2023, will also face a headwind of four points, due to the demand surge in the prior-year.

I'll also highlight one change to our adjustments to net income. As we transitioned certain on-premise technologies to the cloud, we felt an adjustment for software as a service amortization was helpful for comparability purposes. Now that this cost has somewhat stabilized, we will no longer be including it as an add back in our Adjusted Net Income calculation.

However, it will continue to be included in our Adjusted EBITDA calculation, given that these costs are reported in SG&A and are taking the place of depreciation for former on-premise technologies.

One last item, before we wrap up. As a reminder, 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 fiscal year versus a calendar year.

This extra week will provide incremental revenue for the year of \$22 to \$27 million but will not contribute additional profit, as it is an annual low point for weekly revenue.

For additional details on our outlook, 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] Our first question is from Kartik Mehta with Northcoast Research. Please proceed.

Kartik Mehta

Good afternoon. Derrek, maybe just anyone on the management team, I apologize. Just your thoughts on kind of the economic outlook. I know, I think you've talked about the labor market being tight, obviously. And I'm just wondering in relationship to where you

thought the economy was maybe in the fourth quarter, where you guys see it now and just thoughts, going forward.

Steve Cooper

Hey, thanks, Kartik. This is Steve. I think that's in the middle of the bull's-eye, that question about where are we going and how fast in this economy. And as Derrek said in his remarks, it's hard to grow this business, without a good economy.

And we've all seen the impact of interest rates and the slowing that that has done. But we've also seen this powerful news of how many job openings that we have. So, balancing those two and trying to figure out where spend will be is part of us supplying the resources in the right spot at the right time.

We're feeling good about it that this trend that labor, or that PeopleReady has been on of consistency for over a quarter, four, five months of a pretty consistent pattern, except for the prior surge that Derrek called out.

That gives us a lot of confidence that we are participating in a pretty good economy where we are, except for the prior surge that had happened.

Second to come with that is full-time hiring. And these positions are open, yet there's a lot of companies that are--I don't know if it's a freeze is the right word but some caution in their hiring is out there that we know of.

So, we're in a spot of, I don't know if we're at equilibrium yet that we're ready to start growing through all of it, but we're pretty happy with where our industrial staffing business sits, and we're watching, carefully, where our RPO business sits.

And that's what I'll say about that. So, the interest rates have definitely hurt buying activity and the movement of goods. And we'll see where that ends up, later in the year, too. If Derrek wants to add anything to that.

Derrek Gafford

I'll add a little bit to it. I'm glad you asked the question, Kartik. If we're looking to 2023, we're still approaching it with caution. We're planning our business if there's going to be softer macro-economic conditions. We think that's the prudent thing to do.

However, where we stand today, if we're talking about, well, how are we feeling today about the future for 2023 to where we were, a quarter ago? We are, incrementally, more optimistic about it from where we were. Steve mentioned the activity that's going on with the jobs. The number of open jobs just went up to 11 million.

The job hiring activity has been relatively strong. We saw the ADP report. They say that's weather. We'll all stay tuned on that. But you take a look at that and a strong GDP quarter that just finished, given all of the interest rate hikes and inflation coming down.

So, it's just suggesting to us, from what we can see, the labor markets, which we think is a really important part of the economy, is navigating its way through some of these challenges that have been presented, this year.

So, I think that's our overall take, right there.

Kartik Mehta

That's helpful. And just one last question. Just on SG&A, if there's an unfortunate incident and the economy starts kind of trailing off faster than anybody is anticipating, how quickly can you adjust on cost and how quickly would you?

Derrek Gafford

Well, I think it would depend on what we actually experience and the severity of a downturn. As I talked about earlier, we are expecting softer macro-economic conditions. However, we put out annual guidance for, at least on the SG&A line that's relatively close to how we finished up 2022.

We took \$40 million of cost out in 2020; \$30 million of that still fits over a range, outside of our cost structure. A lot of that is in the PeopleReady business. So, we've really slimmed that business down to the minimums of what it takes to keep these operations open.

And so, cutting any more there, we're really concerned for if we cut a dollar of SG&A, we're going to lose even more in gross profit dollars. And so, we're really trying to look at managing this business to maximize the amount of profit, over a complete economic cycle.

And with where labor conditions are and the tightness of the labor pool, that's not just for our customers, it's for us, too. And as much advancements that we've made from a digital perspective, from a technology perspective, we still need people and relationships with customers.

It's all face to face. Things happen, service-wise, and need adjustments. We need good people that know our business, know our technology, know our processes. And most importantly, our customers' needs change, through the year. We have to stay close to that.

So, we're being very mindful to not take that too far.

Now, if we get into a deeper darker recession, we're going to have to take another look at that. But that's not our plans, as we sit here, today.

Steve Cooper

Yeah, and I appreciate the question there, Kartik, because it's balanced with your first question on the thought of the outlook.

The fact that we're playing this SG&A card to run strong and keep, and as Taryn had mentioned, keep people trained and keep our staff in line is we're playing the card that we believe we're ready to bounce and that we're ready to take advantage of the upswing.

Your second question, though, is how fast we can react, if something different happens - and really built into our model is that our recruiters at PeopleScout, that's a variable cost. And to some degree, depending on how bad it gets at PeopleReady, that that becomes a variable cost, based on how many branches we have running and how many people we have in those branches.

So, we have a lot of variability. And then all of our bonus programs that we're paying these recruiters and staffing specialists is all on a variable model, also.

So, this will ramp up and down, and we'll watch very closely. But for now, we like the card we're playing because we want to be ready on the bounce back.

Kartik Mehta

Perfect. Thank you so much. I really appreciate it.

Operator

Our next question is from Jeff Silber with BMO Capital Markets. Please proceed.

Jeff Silber

Thanks so much. And I just wanted to welcome Taryn to the call, as well. Before I ask my question, I just wanted to say something, publicly. It looks like the data services had an incorrect estimate for us for the quarter.

We were actually at \$.38, not the \$.69 that they show, which means consensus was probably closer to \$.41, not \$.52 because the headlines say that you missed consensus

estimates. You might have actually reported a slight beat. We're trying to have this corrected. But I just wanted to let everybody know that, first.

Steve Cooper

Appreciate that, Jeff. Thank you.

Jeff Silber

No worry. Just moving on to my question, can we talk about trends intra-quarter and what you've seen in January? If it's possible to give it out by segment, that will be great.

Derrek Gafford

Yeah, let's talk about it. Our PeopleManagement trends, the quarterly trends were very consistent. Actually, for all three segments, the quarterly trends, or excuse me, the monthly trends were pretty consistent throughout the quarter.

So, there's nothing really to point out, through the quarter. Now, as we go into January, that continued for PeopleReady business. The underlying trends still are holding up, quite steady.

Our PeopleManagement business was low single digit in growth in the fourth quarter, that held on a monthly basis. Going into the first quarter, though, we're seeing some softening, there. We've got clients that are in retail and transportation that they're just saying we're expecting to have a little bit lower volumes.

Retail held up, quite well in Q4, compared to their original expectations, where they were going to be. But some of that was through discounting and promotions of inventory, which won't carry into the first quarter.

And for PeopleScout, we don't bill on a weekly basis, but as you saw from our results here in Q4, we were down about 16%.

In Q4, we're looking at about the same trajectory in Q1. Now, I will say that PeopleScout's 16% decline, half of that was from one client that is having its own challenges. We're still expecting, though, about the same amount of revenue decline in our outlook for the first quarter for January.

We're seeing clients coming back and saying, hey, we're going to hold for this month. We're going to delay until next month. And so, there's some softness coming from that. But I'll also say, we're not surprised by that.

Our PeopleReady business leads. It has, and we saw that in the second, third quarter. We talked about that. It's holding steady and seeing some softness falling in the perm area is not a surprise to us, at this point.

Jeff Silber

Alright, that's helpful. If I could dig down a bit further in PeopleScout, I don't think you broke that brand out separately in prior recessions. But you had it, during the pandemic. And looking at my model, PeopleScout revenues fell over 40% in one quarter but recovered fairly quickly.

Should we expect that kind of volatility, if we are heading into a recession? Would this be the most volatile of your three segments?

Derrek Gafford

Well, I would be really surprised if we had anything as volatile as what we had in 2020. Now, remember, when we had that significant decline that you just mentioned, most of that was around different forms of hospitality-- airlines, hospitality, hotels, that was a third of the mix of our business.

And as you know, in 2020, that segment got really hammered. So, I wouldn't expect that kind of volatility.

Now, the PeopleScout business, in and of itself, is a little bit more lumpy because the revenue for customers is--the proportions to the total revenue is higher. There's not near as many customers there as there is in say, a PeopleReady business, so it can be lumpy at times.

But I wouldn't--I'd be really surprised to see that kind of revenue decline again on a year-over-year basis.

Jeff Silber

Okay, that's really helped. If I could just stick and one quick one. You mentioned a revenue reserve adjustment in PeopleScout in the quarter. Can you just quantify what that was for us?

Derrek Gafford

Sure. That was maybe about \$3 million. When it comes to revenue recognition for the PeopleScout business, it's pretty straightforward. We go and find candidates. We turn

over some candidates to a hiring manager. They select one and, right around that point, revenue gets recognized.

Now, with that said, we do have other agreements with those same customers around volumes, annual volumes that have to be estimated, certain turnover ratios, different things that are built into these.

So, we've always had some form of what we would refer to as a revenue reserve, adjustments that are made. There's usually a few little ones that go one way, a few that go the other way. This particular quarter, they just all seem to go one way.

So, this is the first time that we've talked about it in 10 years, and I wouldn't be surprised if we didn't talk about this for another 10 years.

Jeff Silber

I hope so. Alright, thanks so much.

Operator

Our next question is from Mark Marcon with Baird. Please Proceed.

Mark Marcon

I just want to follow up on some of Jeff's questions. With regards to just PeopleScout--Taryn, welcome to the call. I'm wondering, given your expertise in the area, can you describe a little bit more about what you were seeing there, just in terms of the one large client that accounts for half? Is that kind of a temporary, one-time thing or were they just over hiring, post-COVID and now it's getting back to normal?

And then, what did you see with the other players? And were there any clients that had been lost or anything along those lines?

Taryn Owen

Thank you so much for the welcome. Excited to be here. Related to the customer that had the decline this quarter, it's a large retail customer who had declining volumes within their business in the quarter.

We help this customer with their surge hiring, during the holiday season and during other periods of surges within their business. So, we had a combination of a couple of things going on.

First, they didn't need to hire as many people, and secondly, they didn't have as many people that are on staff busy with work on the sales floor. And so, they had those individuals supplement by doing some recruitment, themselves.

So, that's what drove that decline in this quarter with the large customer.

Mark Marcon

Great. And then, what are you seeing with the others? Is it fairly steady and have you retained all of your customers or are there any sort of contracts that might be terminated or winding down or anything along those lines?

Taryn Owen

Yeah. I would say, just overall, the sentiment that we're hearing from our customers is really around uncertainty about their short-term staffing needs. And so, in RPO, specifically, customers were seeing a lot of activity from first time buyers. They're really interested in getting support with their hiring.

However, they've been slower to make long-term hiring decisions. So, we're seeing a surge in some of our shorter-term offerings like recruiter on demand and some project RPO work where we're able to support our customers rapidly with their needs now, while they sort through what their hiring volumes are going to be for the long term.

But otherwise, as Derrek mentioned, we have some customers that are slowing down their hiring. They're being more hesitant. They're going on and off hold and really just trying to sort through what their hiring volumes are going to look like, this year.

But otherwise, we are just in the current course of business, trying to support them with the needs that they have right in front of them.

Derek Gafford

Mark, this is-- when it comes to the PeopleScout business, this is really a story about our customers hiring volumes coming down.

Interestingly enough, it's not because they don't still have open jobs; they do. But with all these customers they're not sure where things are going.

At a company, one of your worst fears is you hire some people and then two, three, four, six months later, you're going back to those people and saying, we're sorry, we've got to let you go. That's not good for the people; it's not good for the business.

And so, there are many of our customers that are in that spot, trying to understand where things are going. And they're saying, we're going to just hold, we're going to pause, we're going to delay this month. And everybody is talking to their employees.

Everybody else, you're just going to have to get by. Everybody is going to have to get by until we get some more direction on where our own business is headed. And that's what we're seeing.

Taryn Owen

Yeah, and I would just add one more point. We saw volumes in 2022 with our customers that were really high because they were experiencing turnover like they had never experienced, before. And many of those customers have put good plans in place to bring that turnover down, which is just naturally bringing down that turnover and the hiring volume, accordingly.

Mark Marcon

That's great color. And then, just given the comment with regards to the one large one having that surge in Q4, the prior year, not having it this year, does that mean that--how should we think about the revenue decline that we ended up seeing here in the fourth quarter? Should that continue into the first quarter because, presumably, that retail client wouldn't have had the same level of surge hiring in Q1, a year ago.

Derrek Gafford

Yeah, we're expecting the revenue decline in Q1 for the PeopleScout business to be pretty close to what we had this quarter, albeit, from a different path. So, yeah, if you took the 16 points of revenue decline and you adjusted for this one customer we talked about, we'd be more at about 9%, excluding that customer.

However, going into the first quarter, we're hearing from more clients, not anything big, but more pauses. And so, we're expecting to be at about the same revenue decline. It's just getting there through a slightly different path than what you saw in Q4.

Mark Marcon

Okay. Great. And then, how should we think about the staffing levels? Internally, within TrueBlue for the PeopleScout division. How should we think about the expense profile of that business, if things are going to continue along this kind of path?

Taryn Owen

Yeah, the great news at PeopleScout is that the model is built to scale up and down to meet the hiring volumes of our customers. And so, from a recruiter and a recruiting coordinator perspective, we do have flexible staff that we are able to scale, based on that hiring volume.

It's built into the model. It's a big reason that customers choose to outsource to us, so that we can bring them that level of scalability.

Derrek Gafford

So, Taryn gave you the most important big picture. I'll just give you a little bit of geography. So, just also understand, as we make those adjustments, it won't show up in our SG&A. Our recruiters are actually in our cost of sales.

And so, what Taryn is talking about are actions that will be taken as it's needed, as volumes come down to scale the recruiting resources to the amount of demand to keep the gross profit percentage in that business whole.

Mark Marcon

Great. Can you give us a little bit more granularity with regards to PeopleReady, just in terms of what you're seeing different regions, different end markets, just in terms of what's going a little bit softer aside from the retailers that you had already mentioned and prepared us for.

What else seems to be either changing on the margin? And are you seeing any green shoots, in terms of areas that are picking up more?

Derrek Gafford

Yeah, if we talk from a geographic perspective, there's not much news there. You can take a look at the states and the trends there. You take a look at them and it's just very close to the aggregate for the overall PeopleReady business.

If you take a look at by industry, there are some different bands. The areas where we see the most pressure, if you're taking a look at year over year trends, transportation, services and retail, those would be the leaders of the pack. And those declines would be higher than the aggregate percentage revenue decline that we reported.

Areas that are not experiencing as much pressure and would be below that would be construction, manufacturing, hospitality. Still having some declines but holding up better.

The green energy space is one that's been growing for us, this year. That's a bright spot. Canada has been a bright spot for us. Taryn could probably elaborate a little bit more on our green energy plan but with some of the legislation that was passed in the Inflation Reduction Act, there's a lot of incentive around green energy.

And that's an area that we're pretty bullish on.

Mark Marcon

Great. And then, Steve, can you talk a little bit about where you're--how you're thinking about just the office program with regards to PeopleReady? It sounds like we put some things on hold, in terms of centralization. Any updates, in terms of there or stats with regards to JobStack and what percentage of the volume is being filled through JobStack, now.

Steve Cooper

Yeah, I'll kick off that, and I'll let Taryn add a little color to that. But we recognize the importance of these branches. This is what's worked for us for 30 years. And we understand that. And taking care of the employees that take care of the customers when they're out there doing two four Tuesday, two people for two days and that blocking and tackling that it takes to run that business.

It's a very contact sport where you've got to have your teams focused on the right things. And Taryn and her leaders in PeopleReady are doing that.

We're focused on local accounts, growing local accounts. I was in a market last week and seeing seven, eight, different branch managers and two or three of them that are really great at blocking and tackling and winning local accounts,

So, it's very possible, and that's where our energy is, right now.

Centralization is a great idea and it's a great way to save some cost but not at the cost of losing revenue and losing employees. So, we are calling a time out there for a bit, until we have a few more of our ducks in a row on what it really takes to roll that out with the power that is good for our customers and good for our associates.

And we're close, but we just didn't quite hit the nail on the head. So, we're going to pause that for a bit, and we're going to stay focused on these branches. That's where we've been.

And where we do have service centers, they're okay, and we'll ensure that we're doing okay. There's one big area of our PeopleReady that went first. And we closed branches and actually, the results are holding pretty steady to the rest of the company. So, the reason to not go faster is we've got to do better for our customers and our associates when having the right technology and having the right training programs in play in those centers.

So, we'll come back to it, Mark. But you're not going to hear us beat that drum a lot, until we're prepared and do a bit better.

Let me have Taryn give a little color there and she can also talk about how we're doing with JobStack.

Taryn Owen

Yeah, absolutely. Steve said it, well. We're just squarely focused, right now, ensuring, to ensure that we are providing great service to our customers and keeping our relationships strong.

I'll talk about JobStack. JobStack, as you know, has been a critical component of the PeopleReady business really helping us connect with our clients and associates, through that digital experience.

Operating in a tight labor market, JobStack has allowed us to maintain constant contact with our associates. We've got 90% of our associates that are using the apps, and client adoption continues to increase, as well.

We've got about 30,000 clients engaged through the JobStack app, at this point.

So, it's certainly helping us with the connection point and it's also enabled us to achieve some of those cost efficiencies that Derrek talked about, earlier, in the dollars that we were able to remove from operations in 2020.

Mark Marcon

That's terrific. Thank you.

Operator

[Operator Instructions] Our next question is from Marc Riddick with Sidoti. Please proceed.

Marc Riddick

Hi, good evening, everyone.

Steve Cooper

Hey, Marc.

Derrek Gafford

Hey, Marc.

Marc Riddick

And I want to echo everyone's comments and welcome Taryn, it's good to hear you on the call and looking forward to working with you, going forward.

Taryn Owen

Thank you.

Marc Riddick

I wanted to touch a little bit-we've talked quite a bit about the trends. I was wondering if you could talk a little bit about cash flow and cash management prioritization and certainly, it's nice to have a good balance sheet in complicated times, but I was wondering if you could talk a little bit about, maybe, where your thought are there for this year.

And then, I have a couple of follow-ups.

Derrek Gafford

Well, when it comes to our capital strategy, not a lot has changed. We are very glad we've got such a strong balance sheet, taking a look at where things might go, economically. But we're well-prepared for that. So, that's not a concern of ours on the longevity of the business, if we needed to do something with capital and pull it to support the business.

So, put a check mark behind that one. When it comes to acquisitions, we're less interested in acquisitions in our staffing businesses. We think our biggest opportunity,

right now, is continue to digitalize this business, increase our relevance with customers, increase our relevance with candidates and with the workforce.

And that's really our best return, right now. And we're really pleased with our progress. Acquiring into that, we think would be a distraction and there just not any opportunity out there to pull another business into that, opportunity-wise, that we can see can outrank what we're doing with our digital strategies.

Maybe if there were some technology that would enhance that, that would be a different story. But just going out and buying more staffing firms and tucking them in isn't really something we're, particularly, interested in.

Now, when it comes to the RPO business, that's a different story. With the RPO business, there's areas like life sciences or technology that we'd be very interested in getting a bigger presence in.

We have those presence actually with may of our clients. They have technology positions, and we're filling them. What we're talking about is adding more specialization and more street credibility from a logo perspective to technology firms or to life science firms. And having that really helps us in the landing of the deals.

When it comes to stock repurchase, that's something that we've continued to be interested in, and we do like to be opportunistic in our stock repurchase program. So, that's all I'll say on that, but those are our three broad categories of where we want to spend our money and nothing has really changed from those three.

Marc Riddick

Okay, great. And then, I was wondering if you would touch a little bit about the pricing environment and what you're seeing in the businesses and whether or not there's been any impact.

I understand the client hesitancy but maybe if you could talk a little bit about what we're seeing with the rates and if there's been any changes or anything noticeable there, as well.

Derrek Gafford

Well, I think that the standout from a pricing perspective really is our PeopleReady business. Our PeopleReady business, these are smaller jobs, oftentimes. They're supplemental, they're project.

And so, that's one dynamic we have going for us is we get to reprice this business, all the time. And our business units are really doing a great job of it.

I just was looking, before I came in here to the call, I was looking back at some history on positive bill/pay spread. I had one that went back ten years. And the positive bill/pay spread for the year here at PeopleReady has been 180 basis points. There was nothing that even came close to it.

So, we're--the business is really pricing it, based on the value that we're contributing to the customers. We think that we're delivering a really good value, as far as the quality of what we're presenting.

And supply demand imbalance aids in some of that. Folks are needing us even more than they've ever needed us before in trying to find good candidates. The markets are tight. We know how to find that. And it's coming through in the pricing.

I'll pass it over to Taryn, maybe Taryn to see if you want to add anything to that and make any comments about PeopleManagement or PeopleScout.

Taryn Owen

Yeah, I'll just echo your sentiment, Derrek. We've just had great success at making sure we're able to get the right pay rates to our associates and then the bill rates to get the jobs filled on their behalf.

Marc Riddick

Great, thank you very much.

Operator

And that will end our question-and-answer session. So, we may conclude today's conference. Thank you for your participation and have a wonderful evening.