

TrueBlue, Inc.
Fourth Quarter 2023 Earnings Call
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COMPANY PARTICIPANTS

Taryn Owen, President & Chief Executive Officer
Carl Schweih, Chief Financial Officer

OTHER PARTICIPANTS

Jeff Silber - BMO Capital Markets
Mark Marcon - Baird
Will Brunemann - Northcoast Research
Marc Riddick - Sidoti & Company

MANAGEMENT DISCUSSION SECTION

Operator

Greetings and welcome to the TrueBlue fourth quarter 2023 earnings Call. [Operator Instructions]
As a reminder, this conference is being recorded.

At this time, 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 management assumes 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 SEC filings, could cause actual results to differ materially from those in the forward-looking statements.

Management uses non-GAAP measures when presenting financial results. You are encouraged 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, a copy of the Company's prepared remarks will be provided on TrueBlue's investor website at the conclusion of today's call, and a full transcript and audio replay will be available soon after the call.

It is now my pleasure to turn the call over to Taryn Owen, President and Chief Executive Officer.

Taryn Owen

Thank you Operator, and welcome everyone to today's call. I am joined by our Chief Financial Officer, Carl Schweih. We appreciate you being here with us.

The economic environment that we - and many of our customers - are operating in continues to be challenging. Uncertainty led to a greater focus on reducing costs, leading many companies to ask for more from their internal teams to be more selective in the temporary and full-time positions they choose to fill. These dynamics resulted in reduced market demand across the staffing industry.

Revenue for the quarter was \$492 million, down 12% compared to the prior year as economic uncertainty persisted, constraining business spend and impacting hiring trends. We are managing through this market cycle with agility and discipline, meeting our clients' current needs and ensuring we are favorably positioned to capitalize on opportunities as conditions improve.

Our teams are highly focused on growing sales, providing excellent service and responding to our clients' immediate and evolving needs. As companies hesitate to make long-term workforce commitments, we are leveraging our short duration and flexible offerings to satisfy current needs and ensure we are ready to support clients as their needs change or expand. Additionally, we continue to seek opportunities in high-growth and attractive end markets with targeted expansion in areas such as renewable energy and skilled trades.

While most sectors reflect softened demand, the long-term staffing outlook remains positive. We are well-positioned to fill some of the structural staffing shortages we see as Baby Boomers retire, work from home trends continue and shortages in skilled trades expand.

We understand the current market dynamics and the needs of our customers, and we also understand the urgency to see improvement in our results. We are committed to maintaining a dialogue with you and providing transparency about our efforts and progress.

As we enter 2024, we are laser-focused on leveraging our inherent strengths to capture market share and managing our cost structure with discipline to enhance our long-term profitability.

One of the core components of this strategy is positioning our contingent staffing business to compete in a digital-forward future. We continue to advance the digital transformation of our business, positioning us to drive efficiencies and expand our reach through a differentiated experience that combines our technology with our expansive market presence and expertise. We recently achieved a significant milestone with the initial launch of our new, proprietary JobStack app. This new version of the platform allows us to control our roadmap, implement competitive enhancements and quickly address evolving user needs. We are excited to continue the rollout of this technology over the next year as acceleration of our digital transformation remains a key strategic priority to strengthen our market position.

Another key strategic priority is our expansion in high-growth, less cyclical and under-penetrated end markets to capitalize on secular growth opportunities. We already have a proven track record of success with renewable energy work and a strong position to capture further growth opportunities in that market. We also see an opportunity to explore ways to expand our presence in other key end markets such as skilled trades, healthcare and hospitality. Within RPO, we are focusing our efforts towards diversifying into higher skill placements and more specialized product offerings in attractive verticals like healthcare.

An important element of this plan is enhanced focus and profitability through a simplified organizational structure. While we will continue to go to market under our current, well-established brands, streamlining our organization will create opportunities to drive efficiencies and bring our teams closer to our clients and associates, enabling greater focus on operational excellence, cross-selling and innovation. We have already made strides in this area with the sale of our on-demand labor business in Canada, which allows increased focus on our U.S. operations where we are an industry leader. With a more focused structure, we will be better able to reduce costs and leverage our strengths and assets to deliver long-term, profitable growth.

While today's operating environment continues to present challenges, we are energized by the evolution in workforce needs that plays to our strengths and creates compelling long-term opportunities for our business. This optimism is evident in the broad insider buying of company shares on the part of management and the board during the fourth quarter. We have clear strategic priorities that we are confident will help us capitalize on the growth opportunities ahead, enhance shareholder value and advance our mission to connect people and work.

Building on our tremendous strengths and assets - our people, our tools, our experience and our market presence - we are committed to execute with the discipline and focus it will take to return to profitable growth.

I will now pass the call over to Carl, who will share further details around our financial results and outlook.

Carl Schweih

Thank you, Taryn.

On a comparable 13-week basis, revenue was down 15% and at the high end of our outlook due to strong performance in renewable energy work. Our fiscal fourth quarter included an extra 14th week versus the 13 weeks in the prior year period, adding incremental revenue of \$20 million and driving reported revenue for the quarter of \$492 million or a decline of 12%. Renewable energy work more than doubled, delivering its sixth straight quarter of revenue growth. Strength in this vertical helped to offset overall softness in market demand as economic uncertainty continues to weigh on businesses, driving greater focus on cost cutting and restricting hiring trends. While the tight labor market emphasizes the importance of retaining talent, cost pressures are causing businesses to ask more from their teams and be more selective in the positions they fill, leading to lower overall demand in the staffing market.

Gross margin was 26.1% for the quarter, down 40 basis points. The decline was driven by unfavorable revenue mix due to the increase in PeopleReady's renewable energy work, which carries a lower gross margin than the general on-demand business due to more pass-through travel costs, as well as a decline in the revenue mix of our highest margin business, PeopleScout. These factors were partially offset by disciplined pricing in our PeopleReady business, which delivered its eleventh consecutive quarter of positive spread between bill- and pay-rate inflation.

We were able to reduce SG&A by 8% on a comparable 13-week basis with the extra 14th week contributing \$7 million of additional expense, resulting in a reported decline of 3% for the quarter. We adjusted our cost structure to better align with client demand, and we remain focused on managing costs to enhance our profitability. These actions are balanced with maintaining our operational strengths to ensure we are well positioned for the rebound.

We reported a net loss of \$3 million for this quarter, versus net income of \$7 million last year. Included in our results for the quarter are \$3 million of costs associated with our executive leadership transitions and an income tax benefit of \$5 million due to the favorable impact of job tax credits. Adjusted net income was \$3 million, versus \$13 million last year, while adjusted EBITDA declined to \$5 million versus \$21 million last year.

Now, let's turn to the specifics of our segments.

PeopleReady revenue decreased 9%, while segment profit decreased 65%, and segment profit margin was down 430 basis points. On a comparable 13-week basis, revenue decreased 13% with the extra week adding incremental revenue of \$12 million. As we've mentioned, our renewable energy work outperformed this quarter, growing 126% and partially offsetting the general decline in market demand. Client volumes declined across most verticals, with the largest being in retail, hospitality and service industries. From a margin perspective, the contraction was largely driven by lower operating leverage as revenue declined, as well as increased revenue mix from renewable energy work, which includes more pass-through costs. These factors were partially offset by disciplined pricing, which delivered another quarter of favorable spread between bill- and pay-rate inflation, with bill rates up 8%, and pay rates up 7%.

PeopleScout revenue decreased 31%, while segment profit increased 16%, and segment profit margin was up 260 basis points. On a comparable 13-week basis, revenue declined 32%, with the extra week adding incremental revenue of \$1 million. The decline in demand was driven by lower client volumes as businesses continue to navigate in an uncertain environment. Clients are being more selective to the roles in which they choose to fill, with some implementing hiring freezes and others adopting elongated hiring processes. As businesses see less churn in their employee base and remain uncertain around their workforce needs, hiring volumes have declined to a level where some are relying more heavily on internal resources to fill jobs. While the decline in revenue resulted in lower operating leverage, PeopleScout's segment profit margin expanded due to cost actions taken this year as well as the revenue reserve adjustment recorded last year.

PeopleManagement revenue decreased 8%, while segment profit decreased 33%, and segment profit margin was down 70 basis points. On a comparable 13-week basis, revenue decreased 13% with the extra week adding incremental revenue of \$8 million. Demand declined in both on-site and commercial driving services, consistent with the macro conditions evident in the verticals we serve, such as retail and transportation. The margin contraction was driven by lower operating leverage as revenue declined.

Now, let's turn to the balance sheet. We finished the quarter with no debt, \$62 million in cash and over \$80 million of borrowing availability. With the recent renewal of our 5-year credit facility effective February 9th, we have increased our borrowing availability to roughly \$140 million. Our balance sheet is in excellent shape, providing a strong liquidity position and great flexibility to support future growth opportunities.

Turning to our outlook for the first quarter of 2024, we expect a revenue decline of 16 to 10 percent. While this reflects an improvement to the comparable decline in Q4, it's primarily driven by a less challenging prior year comparison as current market conditions are expected to continue into the first quarter. We expect gross margin to be down roughly 200 basis points due to the changes in business mix with continued strength expected in renewable energy work as well as prior year workers' compensation reserve adjustments that are not expected to repeat. While we expect lower operating leverage with the revenue decline in Q1, our lean cost structure will drive improved margins as we move through the year. It is important to note that Q1 is seasonally our lowest revenue quarter, which creates a more pronounced impact on year-over-year profitability relative to other quarters. Our effective tax rate is highly sensitive in periods of low profitability where tax credits can drive significant movement. We expect a statutory income tax rate before job tax credits of 24 to 28 percent for the year with job tax credits of \$5 to \$9 million.

Additional information on our outlook can be found in the earnings presentation shared on our website today.

Before we open the call for questions, I want to turn it back over to Taryn for some closing remarks.

Taryn Owen

Thank you, Carl.

Before we wrap up, I want to reiterate that while current market conditions are challenging, we are taking decisive actions to preserve and enhance our strengths to deliver long-term value. We are entering 2024 with a strong balance sheet and clear strategic priorities, positioning us well to capitalize on growth opportunities and capture market share as conditions improve. We are confident that these strategic priorities, combined with our many strengths and assets, will enable us to advance our mission to connect people and work while delivering long-term value.

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

Operator

Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] One moment, please, while we poll for questions.

Thank you. Our first question is from Jeff Silber with BMO Capital Markets. Please proceed with your question.

Jeff Silber

Thanks so much. I wanted to focus on your outlook for the first quarter. Is it possible to get a little bit more color on the revenue side by your different segments?

Carl Schweihs

Yes, thanks, Jeff, for the question here. The revenue decline on the midpoint was 13%. The midpoint for PeopleReady is around 11%. PeopleManagement is around -6% and PeopleScout, -35%.

The slight improvement from Q4 is really tied to less challenging prior comparison. As we think about into the first quarter, January trends were slightly lower, due to the renewables piece. But it's in line with expectations for where our outlooks are.

Jeff Silber

Okay, that's great. And is it safe to assume that, at least on a reported basis, none of the segments will be profitable in the first quarter? I understand it's seasonality but is that correct?

Carl Schweihs

Yeah, that's a good way to think about it.

Jeff Silber

All right, and you mentioned the renewable business, and it's great to see how much it's grown. Can you quantify how large it is right now and roughly what the gross margin difference is between your other businesses and this business?

Carl Schweihs

Yeah, so, if you kind of look back at the fourth quarter, as I said in the prepared remarks, our business mix, the unfavorable mix there was about 130 basis points for renewable energy in the PeopleReady business, and that really carries a lower gross margin than our on-demand business but that's really due to more pass through travel costs.

As we look at Q1, Jeff, it's about 140 basis points for renewable. But we'll continue to--that will begin to normalize as we lapse year-over-year comparisons. Just keep in mind the gross margins lower for renewable vertical, it carries high pass-through costs, due to remote geographies of many of these projects.

If you exclude those pass-through costs, GM is really in line with other large accounts, and it's really an attractive business for us.

For the quarter, we're a little north at about 50 million in renewable.

Taryn Owen

Yeah, and Jeff, if I could add, certainly, we're seeing significant success in our renewable business, and we are expecting that to continue to grow double digits, as we move through this year.

Jeff Silber

Sorry, just to clarify, you said a little north of \$50 million; 5-0-million, is that correct?

Carl Schweihs

Five-zero for the quarter, yes.

Jeff Silber

All right, appreciate the color. I'll jump back into queue. Thanks.

Operator

Thank you. Our next question is from Marc Marcon with Baird. Please proceed with your question.

Mark Marcon

Good morning. Jeff asked a lot of my questions, as well, in terms of the renewables. Just in terms of just the--what sort of bill rates does that typically run, and how big is the pass-through component?

Carl Schweihs

Well, we don't share specific bill rates. Kind of as I just mentioned, it's comparable. If you remove those pass-through costs, it's comparable to our large accounts, PeopleReady business.

Mark Marcon

Okay. How big is the pass-through component? So of the \$50 million, what percentage of that is pass-through?

Carl Schweihs

I don't have those numbers in front of me. I can get that back to you, after the call.

Mark Marcon

Okay, thanks, Carl. And then on PeopleScout, you're projecting down 35%. Do you see anything on the horizon that would say, it's going to stabilize, or do you think as long as job churn stays relatively low and there's still a lot of uncertainty out there, that we're probably going to be in this pattern?

Taryn Owen

Yeah, hi, Marc, this is Taryn. Thanks for the question. Certainly, our customers in the PeopleScout space, they're really focused on reducing cost, and they have lower hiring volumes.

And so, what we're seeing is that they're relying more on their internal resources to fill positions. So, while we've remained engaged with our customers, they are, definitely have lower hiring volume and in many cases, they're able to handle those, themselves, with the talent acquisition teams that they have.

One of the things that we're doing to help drive revenue during this challenging time as our customers aren't making as many hires, is we're offering some flexible solutions to them that they can utilize where they may not be prepared to outsource all or part of their hiring function, as they're trying to keep their internal teams busy.

So, an example of that is our recruiter-on-demand offering that we provide to help supplement their recruiting teams when they need some excess capacity. Just an example of that to bring to life, there's a customer that we were providing that recruiter-on-demand service to. And that customer actually split their company into two divisions, and they needed some consulting support in terms of helping them develop their talent acquisition strategy and their recruitment technology solution.

And so, PeopleScout was able to provide that solution to them and, ultimately, that recruiter-on-demand offering, as well as that consulting service that we provided, resulted in a multi-year RPO contract award.

So, that's just an example of some of the things that we're doing to stay close to our customers and make sure that we're meeting their current needs so that we are well-positioned to help them expand when they do have increased hiring needs.

Mark Marcon

Great, and so, Taryn, I take it with the vast majority of the clients, even if they're reducing the work, it's not like they've terminated their relationship with you. Just to get greater clarity on that. In January of this year, like what percentage of the clients from January of last year did you retain on the PeopleScout side?

Taryn Owen

Yeah, so we are retaining our customers. It's really around the volume in which they're utilizing us. Some have gone to zero but were under contract. And we remain engaged, perhaps, again with alternative solutions to help them, right now.

But definitely not a client retention issue as much as this is a hiring volume challenge on their side.

Mark Marcon

Okay, and then, with regards to PeopleReady, can you just give us—any regional differences or if we think about some of the areas that were hardest hit, anything on the horizon that you would you see in terms of stabilization.

So, for example, with retail in terms of PeopleReady, how would you think about the balance of the year there?

Carl Schweihs

Yeah, I would say that if we kind of look back on the quarter, we see kind of similar results, as we reported. Retail, obviously, was the most challenging end market for us, which has continued through this year, followed by kind of services and transportation, particularly, in the PeopleReady business.

You might also be just asking about state trends. Those look pretty close to the overall in the end markets, as well as what we've seen in January. Just as a reminder, kind of our biggest geographic opportunities in PeopleReady, California, Florida, Texas, those make up just over 30% of our TTM business, there at PeopleReady.

Taryn Owen

Yeah, and just to add to that, in Q4, PeopleReady wins were really dominated in construction and hospitality. And that trend has continued, as we've entered the first quarter here.

Mark Marcon

Okay, great. Thank you very much.

Operator

Our next question is from Will Brunemann with Northcoast Research. Please proceed with your question.

Will Brunemann

Hey, guys. I just was wondering if you could provide a little bit more color. Are you guys seeing any changes in the competitive environment, and has the demand environment for the PeopleScout business changed at all?

Taryn Owen

In terms of the competitive environment, I wouldn't say we've seen a change there. Certainly, as we look at our PeopleReady business, we compete with both small regional players and larger staffing firms.

And we continue to compete well there with a combination of both, our technology that we have to offer, as well as our expansive market presence. And certainly, we've made some good advances there with the launch of our new JobStack app.

And I would say, similarly, in our other businesses, the competitive landscape has remained pretty consistent.

Will Brunemann

All right, thank you, guys.

Operator

Thank you, our next question is from Marc Riddick with Sidoti & Company. Please proceed with your question.

Marc Riddick

Hi, good evening.

Carl Schweihs

Hi, Marc.

Taryn Owen

Hi, Marc.

Marc Riddick

So, I was wondering if you could, given the announcement this morning, could maybe shed a little light on the transaction and sort of how that might register with the outlook commentary. And then I have a quick follow up, after that.

Taryn Owen

Marc, thank you for asking that question. If we just take a step back and look at what we're focused on as an organization, number one, we're focused on growth, execution and client delivery now, as we navigate this challenging cycle with the agility and discipline that we've been talking about.

But in addition to that, we have three clear, strategic parties. The first is to simplify our organization structure and the sale of the on demand business for PeopleReady in Canada is really part of that.

Secondly, advancing our digital transformation across the enterprise. And then, finally, expanding our market presence into high growth and underpenetrated markets.

If we look at the focus around simplifying our org structure, we've made a number of strides here. And the sale of our on demand labor business in Canada really is allowing us to focus on our U.S. operations, where we are an industry leader and make sure that we are focusing both our financials and human capital on our highest growth opportunities.

In addition to that, we've made some other strides in this area. We've brought together our on-site businesses with SIMOS and staff management under single leadership to really help us maximize some of the synergistic opportunities between those two businesses.

And then finally, we're really working hard to better leverage the technology assets that we have, across the entire organization.

So an example of that is we just started utilizing the technology that we have in our on-site business to support the growth and scale that we're seeing in renewables. So, that sale of the Canadian business was really about just making sure we're remaining laser focused on simplifying the organization in areas where we see long-term growth opportunities.

Carl Schweihs

And then, Marc, just to add on to what Taryn said, the Canadian operations are immaterial to both, TrueBlue and PeopleReady's operations, from an outlook perspective. And as we close the deal here in Q1, we'll share more, going forward.

Marc Riddick

Great, and then I was wondering if you could, given the strength of the balance sheet, especially as you finish the year, I was wondering if you could sort of give us a bit of an update as far as views on use of cash privatization and whether or not acquisitions or the like is potentially on the table, given the state of the industry. Thanks.

Carl Schweihs

Yeah, thanks. In the current economic cycle, we're focused on balancing ample liquidity, making our strategic investments and we'll return excess capital to shareholders, via share repurchases.

Just as a reminder, we've got 55 million under our current authorizations. But as we talk about kind of the strategic investments, virtually, all of those are still in capital investments in our technology.

And then, I'd also say, Marc, right now, we're not actively pursuing acquisitions, but we're interested in targets that can help diversify our hiring mix and as we enter high growth and resilient end market verticals.

Marc Riddick

Thank you very much.

Operator

Thank you. There are no further questions at this time. I would like hand the floor back to Taryn Owen for closing comments.

Taryn Owen

Thank you, Operator, and thank you, everyone, for joining us today.

I do want to take this opportunity to thank the entire TrueBlue team for their resilience and dedication to fulfilling our mission to connect people and work.

We look forward to speaking with you at upcoming investor events and on our next quarterly call. If you have any questions, please don't hesitate to reach out. Thanks so much and have a great evening.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.