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HURN - Q3 2016 Huron Consulting Group Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Huron's webcast to discuss financial results for the third quarter 2016.

(Operator Instructions) As a reminder, this conference call is being recorded.

Before we begin, I would like to point all of you to the disclosure at the end of the Company's news release for information about any forward-looking statements that may be made or discussed on this call. The news release is posted on Huron's website. Please review that information, along with the filings with the SEC, for disclosure of factors that may impact subjects discussed in this afternoon's webcast.

The Company will be discussing one or more non-GAAP financial measures. Please look at the earnings release and on Huron's website for all of the disclosures required by the SEC, including reconciliation to the most comparable GAAP numbers.

And now I'd like to turn the call over to Jim Roth, Chief Executive Officer and President of Huron. Mr. Roth, please go ahead.

Jim Roth - *Huron Consulting Group Inc. - CEO and President*

Good afternoon, and welcome to Huron's Third-Quarter 2016 Earnings Call. With me today is Mark Hussey, our Chief Operating Officer and Chief Financial Officer.

In the third quarter, revenues grew 4.5% over the same quarter of 2015. Our Education and Life Sciences and Business Advisory segments, which represent 44% of our total revenue, continued to perform well, while ongoing challenges remained in our Healthcare segment. I will provide an overview of each of our businesses and our outlook on the rest of the year before turning it over to Mark for more details on the financials.

I'll begin with healthcare. During the third quarter, healthcare revenues declined approximately 8% compared to the third quarter of last year and were down 3% sequentially. The sequential decline was primarily driven by softness in our revenue cycle solution, and to a lesser extent our cost and clinical solution. On a year-to-date basis, total healthcare revenues were down 2% and organic revenues were down approximately 6% compared to the first nine months of 2015.

When the revenue growth rate of the healthcare business began to decline in 2015, it was primarily attributable to our cost and clinical offerings. While the sense of urgency to adapt change among some of our hospital clients remains at lower levels than we have seen in prior years, pending and ongoing pressures in the healthcare market make us cautiously optimistic about the resumption of growth in our cost and clinical solution.

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There are several reasons for our cautious optimism around our cost and clinical offerings. First, healthcare providers' expense bases have recently been rising faster than reimbursements, particularly due to higher labor costs and capital commitments. At the same time, payments from government-funded programs and commercial payers are either being reduced or are increasingly becoming subject to risk-based agreements.

Second, the ongoing M&A activity within the industry is creating opportunities for our services within newly consolidated systems that are seeking to achieve operational and clinical synergies. The industry consolidation has increased competition for all hospitals, and particularly for entities that don't have significant scale advantages. While we are not predicting an imminent change in the trajectory of our growth rate for our cost and clinical solution, we do believe that underlying pressures exist within the provider industry that will enable us to return to growth in this part of our business.

Our revenue cycle solution, which is approximately 45% of our total healthcare business, has experienced weakness over the past two quarters following a long period of steady growth. Through the third quarter, the run rate for our revenue cycle offering is down approximately 10% compared to 2015.

This decline is primarily attributable to a wind down of some of our larger revenue cycle projects and a trend toward smaller engagements with more limited scope. While we expect the market to continue to demand our revenue cycle services, it is too early to determine when this part of the business will return to a growth trajectory.

Across both our cost and clinical and revenue cycle solutions, we continue to experience softness in the pipeline for large integrated projects as our clients are shifting to more solution-specific engagements.

As I mentioned earlier, the impact of the wind down of some significant projects has also contributed to our recent revenue declines, and we believe will continue to be a headwind going into 2017. While we have anticipated the ending of these engagements, we have not yet been able to replace these projects with similar sized engagements or a significantly larger volume of smaller projects.

Despite the aforementioned challenges, we expect our Studer Group solution to deliver full-year results in line with our expectations, even with some more recent competitive activity. As hospitals and health systems become increasingly accountable for quality and patient satisfaction metrics, Studer Group is playing a preeminent role in helping our hospital clients achieve the leadership and cultural changes necessary for successfully competing in this environment.

Our healthcare practice was formed 10 years ago, and against sizeable and well-resourced competitors, we have established the premier healthcare management consulting firm. As the provider industry continues to rapidly transition toward a more quality and cost conscious environment, our clients are looking for trusted partners to assist with their business transformation. We continue to evolve the practice as we pursue new offerings and reposition our revenue cycle and cost and clinical solutions to address the most critical needs of our clients as they strategically position their businesses to compete in this new environment.

Let me highlight a few examples of the expansion of our services within our healthcare practice. The first is our strategy offering. The complexity and uncertainty of the healthcare environment is forcing our clients to be more strategic about their expansion plans, service offerings, and alliances. Our strategy team is uniquely positioned to help our clients identify and align their strategic priorities, and to integrate patient and population analytics to provide the insights necessary for a successful future.

The second is our physician offering. As the majority of physicians are now employed by health systems, and our clients are increasingly being compensated based on quality metrics, the need for greater alignment between physician organizations and health system leadership and deeper patient engagement is paramount. In our physician solution, we have combined our capabilities across the practice to support the evolving needs in this area.

The final example of evolving services in healthcare relates to our technology solutions, which have increasingly become an integral part of our go-to-market strategy. We have made multiple acquisitions in this area over the past few years, enhancing our ability to help clients operationally and financially achieve a return on the significant investments they have made in electronic health record systems.

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Huron is a growth company, and we are committed to continuing to make the strategic and operational changes necessary to position Healthcare segment to resume growth. While the evolution of the provider market continues, we believe that with the full breadth of our strategy, operations, patient engagement, and technology competencies, we are able to deliver the comprehensive transformation solution our clients are looking for to successfully position them for the future. Our top priority is to enhance the strength of our existing businesses while continuing to invest in new service offerings to position the practice for future growth.

Let me now turn to our Education and Life Sciences segment. Revenues grew 9% organically in the third quarter year over year, driven by continued strong performance across the education practice. In the education practice, the solid demand we saw in the first half of the year continued into the third quarter.

Once again, each of our service lines within the education practice performed well. The transformation underway at higher education has created a favorable environment for growth. The revenue from many colleges and universities are flat or declining, while administrative, academic, and research costs are rising, creating significant challenges for our public and private higher education clients.

In addition, our clients continue to face increasing internal and external pressure as competition within the academic and research environments is intensifying. Our investments in cloud-based technologies continue to perform well, as many clients view a transition to the cloud as an opportunity to make significant modifications in their underlying business practices. We believe the challenges facing higher education institutions will continue, driving demand for our cloud-based solutions, as well as our management consulting solutions.

Our life sciences business has experienced some weakness in the market recently, particularly as compared to last year's strong results. Our life sciences clients remain challenged by pricing pressures and regulatory risk as they look to increase topline growth and optimize their product portfolios to position them for long-term success. With our commercial strategy and operations capabilities, we are investing in ways to help our clients set and achieve their strategic objectives while minimizing enterprise risk.

Finally, our Business Advisory segment continued to perform in line with our expectations during the third quarter of 2016. The legacy business advisory practice had a solid third quarter, driven largely by the depth of our industry knowledge and strong operational expertise across an array of industries.

The legacy business advisory practice has transitioned from being primarily involved in public company matters to providing a broad set of services in operational improvement, corporate spinoffs, valuation, and corporate finance. We believe that current demand remains supportive for this business to continue to achieve solid growth in the future, particularly within our core middle market area of focus.

The enterprise performance management and analytics, or EPM&A practice, continued to deliver positive growth during the third quarter. We did experience some softness in the legacy portion of the EPM&A practice in the quarter, primarily attributable to the realignment of a vendor's sales organization as they make a strategic transition into cloud-based applications. We believe some of the related channel disruption is temporary as the pipeline is quickly rebuilding.

The ongoing integration of ADI Strategies into our legacy practice is going well. With a combination of our businesses, we have taken advantage of many new opportunities, including increased penetration into the financial services sector, an expanded West Coast presence, and deeper collaboration among our health, education, and life sciences protocols.

Both the Business Advisory segment has and will continue to build a sizeable presence within the financial services industry and other commercial sectors. I want to spend a minute talking about the impact that the growing Business Advisory segment has had in terms of our ability to deliver a complex financial, operational, and technology services to our core industry verticals.

Through the first nine months of this year, 22% of total Business Advisory segment revenue has been generated by healthcare, education, and life sciences clients. While this revenue is captured in the Business Advisory segment, it is important to note that these businesses have enabled us to serve new clients and achieve additional growth in our core vertical industries that is not apparent in our segment reporting.

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For example, our business advisory practice has recently helped facilitate the merger of a small healthcare system with a larger system, leading to additional integration-related work for our practice. Business advisory has also won several engagements with universities to implement new technologies that drive better student engagement and retention.

Finally, we were recently awarded a highly competitive engagement to assist a pharmaceutical company with the implementation of a new enterprise performance management system to improve their financial operations across each of the Company's business units.

We believe the depth and breadth of experience within our Business Advisory segment differentiates Huron among its competitors. We expect to continue to expand our business advisory services, supporting both the commercial sector, and increasingly, our core industry verticals.

Turning now to our thoughts on the rest of the year. As our press release indicates, we are updating our annual guidance to $730.0 million to $740.0 million, and narrowing our GAAP earnings per share guidance to $2.00 to $2.10. On a non-GAAP adjusted basis, our updated EPS guidance is $3.25 to $3.35.

From a market perspective, I feel good about the continued growth of our Education and Life Sciences and Business Advisory segments. These segments are likely to finish the year strong, and are well-positioned to achieve solid growth in 2017.

While we are unable to predict when growth will return for our healthcare business, we believe the changes and investments we are making in our business, and the continued pressure on our provider clients' businesses, will drive demand and growth in our Healthcare segment.

Amidst the fundamental changes taking place within the healthcare sector, it is difficult to envision a future where our hospital and health system clients are comfortable with their financial security and operational performance. We are working diligently and focusing our business and our go-to-market strategies on areas that we believe are most likely to accelerate growth. And we are committed to working to achieve mid to upper single-digit revenue growth across the Company.

Now let me turn it over to Mark for a more detailed discussion of our financial results. Mark.

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

Thank you, Jim, and good afternoon, everyone. Before I begin, please note that I will be discussing non-GAAP financial measures such as EBITDA, adjusted EBITDA, adjusted net income, adjusted EPS, and free cash flow. Our press release, 10-Q, and Investor Relations page on Huron's website each have reconciliations of these non-GAAP measures to the most comparable GAAP measures, along with a discussion of why Management uses these non-GAAP measures.

Also, our acquisition of HSM Consulting, which closed on August 1st, is included in our third-quarter financial results in the Healthcare segment. In addition, we now expect the acquisition of the international business of ADI Strategies will close later in the fourth quarter of 2016 or early in 2017, at which time it will be included in our Business Advisory segment.

Now let me walk you through some of the key financial results for the quarter. Revenues from continuing operations for the third quarter of 2016 increased 4.5% to $183.4 million, compared to $175.5 million in the same quarter of 2015.

Revenues for the third quarter of 2016 reflect our acquisitions of Cloud62, My Rounding, the US business of ADI Strategies, and HSM Consulting, all of which closed after the third quarter of 2015, and in the aggregate generated $17.1 million of incremental revenues during the quarter. On an organic basis, revenues declined by 5.2%.

Net income from continuing operations was $12.3 million, or $0.57 per diluted share, in the third quarter of 2016 compared to $14.3 million, or $0.63 per diluted share, in the same quarter of last year. The decline in net income over the prior-year period is primarily due to higher salaries, bonuses, and related expenses as a percentage of revenue.

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Our effective income tax rate in the third quarter of 2016 was 37.2% compared to 40.6% a year ago. Our effective tax rate for Q3 of this year was lower than the statutory rate, primarily due to nontaxable income, valuation allowance reductions, and certain credits and deductions, partially offset by nondeductible business expenses. The prior-year tax rate was higher than the statutory rate, primarily due to nondeductible business expenses and foreign losses with no tax benefit, partially offset by certain credits and deductions.

Adjusted EBITDA from continuing operations was $36.9 million in Q3 2016, or 20.1% of revenues, compared to $41.7 million in Q3 2015, or 23.7% of revenues. Adjusted non-GAAP net income from continuing operations was $19.7 million, or $0.92 per diluted share, in the third quarter of 2016 compared to $20.4 million, or $0.90 per diluted share in the same period of 2015.

Now, I'll make a few comments about the performance of each of our operating segments. The Healthcare segment generated 56% of total company revenues during the third quarter of 2016. The segment posted revenues of $103.4 million for the third quarter of 2016, down $8.7 million, or 7.8%, from the third quarter of 2015.

Revenues for the third quarter of 2016 included $3.9 million from our acquisitions of My Rounding and HSM. Excluding these incremental amounts, revenue on an organic basis decreased 11% compared to the third quarter of 2015. As Jim mentioned, the decline was primarily driven by continued softness in our revenue cycle and cost and clinical solutions.

Performance-based fees in Q3 2016 were $13.8 million compared to $9.9 million in the same quarter last year. Our full-year expectation for the range of performance-based fees is now $55 million to $60 million.

Operating income margin for Healthcare was 37.5% for Q3 2016 compared to 42.5% for the same quarter in 2015. The year-over-year decline in operating margin was primarily driven by lower utilization compared to the year-ago quarter. The strong margin in the third quarter of 2015 was favorably impacted by a year-to-date bonus adjustment in that period.

The Education and Life Sciences segment generated 25% of total company revenues during the third quarter of 2016. The segment posted revenues of $45.7 million in Q3 2016, an increase of 8.7% compared to revenues for Q3 2015 of $42.1 million. As Jim noted, we continue to see solid demand across all of our education services offerings, including our cloud-based technology services.

The operating income margin for the Education and Life Sciences segment was 26.5% for Q3 2016 compared to 24.9% for the same quarter in 2015. The increase in operating income margin in the quarter is primarily attributable to lower bonus and contractor expenses as a percentage of revenues.

The Business Advisory segment generated 19% of total company revenues in the third quarter. The segment posted revenues of $34.3 million for the third quarter of 2016, an increase of 61.3% compared to $21.2 million in Q3 of 2015.

Revenues for the third quarter of 2016 included $13.3 million of incremental revenues from our acquisitions of Cloud62 and the US business of ADI Strategies. Excluding these incremental amounts, revenue on an organic basis was flat compared to the third quarter of 2015.

The operating income margin for Business Advisory was 21.5% for Q3 2016 compared to 24.6% for the same quarter in 2015. The decline in margin reflects a shift in revenue mix from our legacy business advisory practice to our EPM&A practice.

I'd like to remind everyone that the EPM&A practice typically has lower bill rates and margins than that of the legacy business advisory practice. As the EPM&A practice continues to grow at a somewhat faster pace than the legacy business advisory practice, we expect the blended bill rates and margin will likely be weighted toward EPM&A margins over time.

Other corporate expenses not allocated at the segment level were $27 million in Q3 2016 compared with $26.6 million in Q3 2015. Other corporate expenses in the third quarter of 2016 included a $500,000 loss related to the remeasurement of our earn-out liabilities and $1 million of restructuring charges compared to only $300,000 in the third quarter of 2015. Also, the third quarter of 2015 was favorably impacted by a year-to-date bonus adjustment in that period.

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Now, turning to the balance sheet and cash flows. DSO came in at 63 days for the third quarter of 2016, an increase of 5 days compared to the second quarter of 2016 DSO.

Total debt includes both a $250 million face value convertible notes and $104 million in senior bank debt for total debt of $354 million. We finished the quarter with cash of $9 million for net debt of $345 million, a reduction of approximately $13 million compared to net debt of $358 million as of the second quarter.

The third quarter also included the funding of our acquisition of HSM. We ended Q3 2016 with a leverage ratio defined as total debt net of cash of approximately 2.4 times adjusted EBITDA. For the second quarter in a row, we reduced our debt while purchasing a business with cash.

Cash provided by operating activities for the quarter was $38.3 million. We continue to expect cash from operating activities for the year of $135 million, plus capital expenditures of roughly $20 million. We expect free cash flow for the year of approximately $115 million.

Finally, as Jim mentioned, we are updating our annual revenue guidance to $730.0 million to $740.0 million. We are also narrowing our annual earnings guidance for GAAP diluted EPS to $2.00 to $2.10 per share, and non-GAAP adjusted diluted EPS to $3.25 to $3.35 per share. We also expect our effective tax rate to be in the range of 37% to 38% for the year.

With that, I would now like to open up the call to questions. Operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tim McHugh, William Blair & Company.

Tim McHugh - *William Blair & Company - Analyst*

Thank you. Just healthcare, can you talk about -- I think on the last call you had seen incremental weakness, but the hope was that you would see, based on your pipeline, some kind of improvement in the revenue run rate in the second half. So, did trends get worse, or did some of these large projects start rolling off sooner than you would have expected? I guess what's the delta versus what you thought three months ago for the healthcare business?

Jim Roth - *Huron Consulting Group Inc. - CEO and President*

I think the primary issue with the healthcare, Tim, has been that we've had some -- the wind down of the bigger jobs without the ability to replace them with something comparable is I think probably the main story there. We think that's really what's driving the declines right now. There remains both in the cost and clinical and revenue cycle, the needs are still there, the demand is there. We are just having a tough time replacing some of the larger engagements as they begin to wind down.

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

And Tim, the thing I would add would be the sales cycle has proven to be a little bit longer in certain cases, and I think that's probably the delta from what the earlier expectations were.

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Tim McHugh - *William Blair & Company - Analyst*

So is the decline in these large projects as you expected? And how much of a headwind are we looking forward from at this point? Are there still a significant rundown to happen that you mentioned through early 2017? Help us size what type of incremental headwind from the run rate we're kind of looking at today, or for Q4.

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

I think the expectation right now, if you look at the guidance that we've laid out today, we would expect actually sequentially a pickup from where we were in Q3 in the fourth quarter. The headwinds coming into 2017, again, this is reflecting the fact that we haven't had replacement projects. You're probably looking at in the early part of next year, kind of a low single digit percentage point headwind on revenue related to the remaining part of the large projects that have not wound down.

Tim McHugh - *William Blair & Company - Analyst*

Is that a low single digit percentage of total revenue or healthcare?

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

Of healthcare.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And that's the ones that are still running in Q4. So it's 2%, 3%, 4% headwind you still have to overcome in next year.

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

Yes.

Tim McHugh - *William Blair & Company - Analyst*

All right. And then can you just -- Studer, I think you qualitatively said it did okay, but can you give us -- I guess what was the revenue and the growth rate from that? And then secondarily, what is the -- there was a comment in there about increased competition. I didn't think of a lot of things being in direct competition with what they do, so can you elaborate on that?

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

With respect to Studer, again, we had talked to them being in the range for the year of mid to upper single digits, and that continues to be the case in the quarter. And that still continues to be our outlook for the year.

I think from a competitive standpoint, I think there are, without naming names, others in the space that would like to expand into the patient engagement area. And it's just one that, again, is something that we watch very carefully just because of the competitive environment.

Tim McHugh - *William Blair & Company - Analyst*

Are there direct client losses that are happening because of that, or is this just something you're saying you're watching?

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Jim Roth - *Huron Consulting Group Inc. - CEO and President*

Tim, it's Jim. We don't win everything that we're competing against. I just think that we've been very successful in this business, and we continue to be successful. And not surprisingly, as we've seen in frankly all of our businesses, you get to be more successful, you get competitors. And so that's what we're seeing, and I think it's not a surprise to us. We're still comfortable with the trajectory of the business, but like in any other successful business, you're bound to get more competitors, and that's what we're seeing right now.

I will say, though, that despite the more competitive environment, the market remains very focused on the issues that the Studer Group is providing. And I think that's a benefit for us in the longer term. But we've always had competition; we just have a little bit more of it.

Tim McHugh - *William Blair & Company - Analyst*

Okay, thanks.

Operator

Randy Reece, Avondale Partners.

Ben Flox - *Avondale Partners - Analyst*

Ben Flox on for Randy Reece. Just real quick, a maintenance question. Can you give a number for consulting headcount in healthcare, excluding the acquisition in the quarter? And then also, did you give a performance-based fee number for Business Advisory? I may have just missed it.

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

We did not give one for Business Advisory. I think it was -- it was not really particularly material in the quarter. We can certainly get back to you with that.

And then with respect to headcount, excluding the HSM acquisition, we were somewhere around the 930 range.

Ben Flox - *Avondale Partners - Analyst*

Okay, great. And then can you give a little commentary as far as budgets go on the provider side, what you guys are seeing? I know you had touched on the sales cycle taking longer with some of your engagements, but some of that may speak to the size of them as well. Just curious what you're seeing in the marketplace in terms of how willing these guys are to spend right now.

Jim Roth - *Huron Consulting Group Inc. - CEO and President*

This is Jim. It's a complicated market right now for all the reasons that we probably read about every day. I wish there was one or two simple and clear reasons for the market dynamics, but there's not. We see, as we indicated in the call, there's a lot of M&A activity taking place right now, which puts a lot of pressure on our clients to be better on the cost and the quality side of things.

We know for a fact that labor costs have been for the most part outpacing reimbursements. And that's both from the federal programs and the commercial programs. I actually think that is the underlying trend that's probably for our clients is probably the most concern, and that is the reimbursements are not matching the increase in labor cost to support any type of increase in volume. So that's a major issue.

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And then I think you've got other issues that are affecting both the pace at which our clients are making decisions. I suspect there's a little bit of uncertainty about the way the Affordable Care Act is evolving. I think there's uncertainty as to how much, if at all, they should be embracing the non-Medicare risk-based programs. I think there's probably some uncertainty around the election. And so we've got all these dynamics taking place.

And we look and we talk to our clients. We're in the market every day at numerous places, and so it's not as though these issues have gone away. I made the comment that it's really hard that kind of look very far into the future and find a period of time that where they're financially stable. They're not -- I think they're really waiting -- a lot of these places have gone through substantive change already, and are probably a little bit reluctant to continue doing that until they get a better vision as to where things are going.

So I think there's numerous reasons why our clients are kind of holding back and deferring making some decisions. And we, as always, have to be patient because we've got to let them do what they need to do.

I think there's probably also some degree of the fact that our clients are -- some clients are -- as we've always said, our biggest competition is just organizations that are trying to do things on their own. And we have always, and still face that as an uphill battle.

But in general, we believe the market is right for the kinds of services that we offer. And that's why we are cautiously optimistic about the way things are looking in the future, but reluctant to be too specific on the timing for that recovery until we get a little bit more indications.

The last thing I'll say is that one of the other things that hinders us a little bit here is that it wasn't that long ago in the healthcare practice where we had substantial visibility, largely as a reflection of the larger, long-term integrated projects that we had. And as we've indicated, given the wind down of those kinds of businesses, we're actually faced with an environment where we have a lot less visibility, and therefore it makes it more difficult for us to make calls a little bit more in the future than we have before.

Now that's not all bad. I think we've, for example in our higher education practice, which although is smaller than healthcare, has had a fairly similar footprint in terms of visibility for a long period of time, and that is they just don't have that great of visibility. We've historically had it in healthcare. In the last two, three, four quarters, we've got diminished visibility, and that's affecting a little bit our ability to go ahead and predict how things are going to play out. We look at the overall market dynamics and feel good about them, but we've got to wait for the market to actually respond.

Ben Flox - *Avondale Partners - Analyst*

All right. Thanks a lot for the color. That's very helpful.

Operator

Tobey Sommer, SunTrust Robinson Humphrey,

Kwan Kim - *SunTrust Robinson Humphrey - Analyst*

This is Kwan Kim dialing in for Tobey. Thank you for taking my question. Real quick in the ELS segments. Out of the 9% year-over-year growth, what proportion of that would you attribute to one-time transformational type projects versus repeatable work? Thank you.

Jim Roth - *Huron Consulting Group Inc. - CEO and President*

This is Jim. The ELS business is really much less reliant on larger engagements. And even though we have some sizeable engagements going on, I'm not even sure how we would answer that question because it's not really the way we look at things internally.

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We had a very broadbased contribution among all of our practices in the education sector that contributed to that 9% growth. And so that was really across our technology and our strategy and operations and our research businesses. And so they've all contributed in a very solid way. And I don't think any of them, any of the overall growth rate would specifically be attributable to one-time versus something else.

In the education practice, we've got a pretty long history of working with clients for a long period of time on multiple types of engagements. We've had some clients that we've probably been working at for coming up on 10, 11, or 12 years straight on just a variety of projects. So, we view it differently, and it's much more of a longer term relationship than we've typically had in healthcare.

I will say as we try to transition, as the healthcare needs transition, as the healthcare market transitions, we're trying to build the same type of relationships in the healthcare segment that we've typically had in higher education, but that just takes some time.

Kwan Kim - *SunTrust Robinson Humphrey - Analyst*

Got it. Thank you.

Operator

(Operator Instructions) Kevin Steinke, Barrington Research Associates.

Kevin Steinke - *Barrington Research Associates, Inc. - Analyst*

So, last quarter's call, as well as this quarter, you talked about that within healthcare, you've made some adjustments to your sales and service delivery models, as well as your go-to-market strategy. And in order to differentiate yourself in the market and be reflective of client needs, you talked about some expanded healthcare services in this call.

So I'm just wondering if at this point, you feel like you have the right go-to-market strategy, the right set of service offerings out there for your clients' needs, and that it's just a matter of clients making decisions and moving forward? Or do you feel like you have to do some more tweaks to your model or your strategy?

Jim Roth - *Huron Consulting Group Inc. - CEO and President*

Kevin, it's Jim. I'm going to respond to that in a couple ways. First of all, I think we are always making tweaks to our go-to-market strategy. I think that's the thing that's critical for a consulting firm to survive. Every one of our markets changes, and we have to not only be responding to the changes in the market, but we've got to be anticipating them, hopefully in advance, and then making changes. So, I would say that we have -- we've made a very conscious effort over a long period of time to continue to be evolving new products and service lines within each of our practices.

And so there's a couple things that I guess I would point out as it relates to how we're viewing our go-to-market strategy. Number one, we'd mentioned on the call a couple things that we have really began to focus on a lot more over the last two or three years. Number one was our physician practice. As the physicians got more and more employed, we knew this was going to put a different kind of -- create opportunities, but also different pressures for our clients, for our hospital clients. So we vastly bolstered up our physician services.

Our technology solutions practice has really also ramped up quite a bit. We're in a much better position right now to help our clients find a return on investment on the very substantial investments that they made on a lot of their electronic records systems. And that, to us, has been and will continue to be a very good offering.

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We have obviously, as we've indicated now for the last year or so, as we've begun to see a wind down of some of our larger projects, we've recognized the fact that we're going to have to have a broader footprint on the sales perspective to have been able to sell to more clients that we typically had to before.

I think it was probably two years ago, despite having a very sizeable revenue base in our healthcare practice, we probably only served 40 or 50 clients. And they tended to be larger clients. As we've indicated, the average revenue for each individual project has gone down, for each client has gone down. And so by definition, we've got to broaden the base into which we're actively pursuing things from a sales perspective. So that's certainly one of the fundamental changes that we've made in our healthcare practice is to get ourselves positioned to have a broader based sales organization.

And I think the last point that I'll make on this area is that -- because I really want to emphasize it, the degree to which we are now selling solutions, collaborative solutions, into healthcare and education and life sciences through our business advisory services is really important. We believe that's a very critical differentiator for the kinds of services that we're offering. We have had -- I think when we go to market together, whether it's in health, life sciences, or education, when we go to market with the business advisory segment, we probably had a higher batting average because of our ability to combine capabilities that our clients are looking for.

And so that, too, is a change in our go-to-market strategy that I think has actually proven very favorable. And we mentioned that I think it was 22% of the revenues from the business advisory segment were actually done within our health, education, and life sciences segments. I wouldn't be surprised if that continues to grow.

We're actually making very solid progress in the financial services sector within business advisory, and that will be an important sector for us. But I also believe that the penetration into health, education, and life sciences will continue and will continue to make us a differentiator.

So collectively, those are examples. There's more that I could provide, Kevin, but I think those collectively give us some examples in terms of why we are continuing to evolve our go-to-market strategy, and why we believe it will lead to a resumption of growth within healthcare in particular, but really for the whole Company as time goes on.

Kevin Steinke - *Barrington Research Associates, Inc. - Analyst*

Okay. Very helpful. And you referenced broadening your sales footprint. I'm just wondering what that involved or what it is involving in terms of you're hiring more of a direct sales role, or just you're consulting, just getting out and meeting with more people, or how does that process work in terms of broadening the sales footprint?

Jim Roth - *Huron Consulting Group Inc. - CEO and President*

Kevin, I think there's a couple ways. First of all, we have some very bright and experienced people. So in the old days, again like probably a year or two years ago when we could have a limited number of people actually pursing what were really larger sales opportunities, we didn't need that many people out in the market that were really fully focused on sales.

I think in this current environment, because we've had so much experience really not just at our managing director level, but even below that, we've got a -- we've had a great opportunity to have more and more people get engaged in the sales process.

And I think it makes it a little bit easier to sell an engagement when you're trying to sell something smaller than when you're trying to sell some large, integrated project. So there's no question that if we had a large, integrated opportunity today, that we would be pursuing it with our most experienced sales people. But for the simpler, more point-specific opportunities, we actually have a very experienced base of people that are quite good at what they do. And we're finding that they're fully capable of going out and beginning to promote our services and sell our work.

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So, it's a transition certainly for us, because if we have to be selling to a lot more places, we certainly have to have a lot more people engaged in the market. But having said that, I think we're well prepared on that path, and that we just now -- our efforts right now are continuing to focus and organize our sales effort to make sure that that's as coordinated as it can be.

Kevin Steinke - *Barrington Research Associates, Inc. - Analyst*

Okay, that's helpful. And as we look to 2017, how should we think about the education and life science margin now that you've made the investments in cloud-based implementation capabilities this year. Should we start to see some leverage of those investments as we move into 2017?

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

Kevin, this is Mark. So I think at this point, given where we are in our budget cycle, I think it's too early to tell. I think there's always things that are out there. But certainly as we look at how the cloud has transpired, we feel like it's met our expectations, both on the top line and the bottom line.

I think we'll have more to say about that, but collectively, it's likely to be right within the ranges that we expected when we announced guidance earlier in the year. So I think more to come, but probably not until we really get a little bit better look at what the opportunities are in 2017.

Kevin Steinke - *Barrington Research Associates, Inc. - Analyst*

Okay, fair enough. Thanks for taking my questions.

Jim Roth - *Huron Consulting Group Inc. - CEO and President*

Thank you.

Operator

Mr. Roth, we have concluded the allotted time for this call. I'd like to turn the conference back over to you.

Jim Roth - *Huron Consulting Group Inc. - CEO and President*

Thanks for spending with us this afternoon. We look forward to speaking with you again when we announce our year-end results in February. Good evening.

Operator

That concludes today's conference call. Thank you, everyone, for your participation. You may all disconnect.

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