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HURN - Q4 2019 Huron Consulting Group Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 25, 2020 / 10:00PM GMT

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to Huron Consulting Group's webcast to discuss financial results for the fourth quarter and full year 2019. (Operator Instructions) As a reminder, this conference call is being recorded.

Before we begin, I would like to point all of you to the disclosures 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 the disclosures required by the SEC, including reconciliation to the most comparable GAAP numbers.

And now I would like to turn the call over to Jim Roth, Chief Executive Officer of Huron Consulting Group. Mr. Roth, please go ahead.

James H. Roth *- Huron Consulting Group Inc. - CEO & Director*

Good afternoon, and welcome to Huron Consulting Group's Fourth Quarter and Full Year 2019 Earnings Call. With me today are John Kelly, our Chief Financial Officer; and Mark Hussey, our President and Chief Operating Officer.

Led by strong growth across all 3 operating segments, revenues grew 13% organically over the prior year quarter. Two years ago, we developed a strategic plan that focused primarily on organic growth. To achieve this, we first focused on new ways to grow our core businesses, which have been the principal driver of our growth in recent years. Second, we invested in new offerings aimed at addressing the evolving needs of our clients and strengthening our competitive advantage. As we approach the midpoint of our 5-year strategic plan, I am incredibly proud of the progress we have made. We believe that collectively our progress has positioned Huron for long-term growth and improved profitability.

I will now share some additional insights into our fourth quarter and full year 2019 performance, along with our expectations for 2020. On a full year basis, Healthcare segment revenues grew 9% over 2018. In the fourth quarter of 2019, the Healthcare segment grew 11% over the prior year quarter. The year-over-year and quarter-over-quarter increases were primarily driven by solid demand in our performance improvement solution.

The recent JPMorgan Healthcare Conference highlighted some of the key factors that continue to disrupt the healthcare industry, including concerns over quality and affordability, value-based care and population health strategies, issues related to revenue growth and diversification, and digital enablement, among many others. Needless to say, our ability to address these needs for our clients is at the heart of the growth strategy for our

Healthcare business. We believe that the combination of our traditional core offerings with new and innovative products, services, and partnerships, positions us to respond to future market changes as the healthcare landscape continues to evolve.

Turning to the Business Advisory segment. On a full year basis, this segment grew revenues 7% year-over-year. In the fourth quarter of 2019, Business Advisory segment revenues grew 5% over the prior year quarter. The year-over-year and quarter-over-quarter increases were primarily driven by growth in our ES&A and Business Advisory practices.

Although the Business Advisory segment continues to serve our Healthcare and Education clients, the strategic story behind the growth of this part of our business is our continued expansion into commercial industries. In this segment, we have made significant inroads into the financial services, life sciences, energy and utilities, and industrial and manufacturing sectors, while continuing to expand our global presence. We believe our combination of capabilities and organic investments in these industries positions us well to take advantage of the significant market opportunities across those verticals. For the full year 2019, the Business Advisory segment generated approximately 32% of its total revenues in the healthcare and education industries.

Our ability to go to market collaboratively across multiple parts of our business has yielded positive results for Huron. We continue to believe that we are most successful against our competition when we are nimble and anticipatory and go to market with a well-orchestrated set of competencies that are most reflective of our clients' needs.

Turning now to the Education segment. The Education segment achieved organic growth of 16% in 2019 over 2018 driven by strong growth in our research, technology, and strategy and operations solutions. In the fourth quarter of 2019, Education segment revenues increased 27% over the prior year quarter driven by our research and technology solutions.

Higher education institutions continue to face significant pressures on cost and quality and are also facing stiff competition from nontraditional sources. Many boards and senior leaders are having strategic discussions about the sustainability of their business models. We believe our market presence and deep industry expertise has positioned us as one of the leading professional services firms focused on higher education. The issues and challenges in this industry are growing in criticality, and we are well positioned to help our clients navigate what will surely be significant challenges in the coming years.

Let me now turn to our expectations and guidance for 2020. Our revenue guidance for the year is $900 million to $940 million. We also expect adjusted EBITDA in a range of 12% to 12.8% of revenues and an increase in adjusted diluted earnings per share in a range of 1% to 12% over 2019.

I will now provide a few thoughts regarding our expectations for each segment as well as overall company profitability. Company-wide, we are guiding to mid-single-digit revenue growth in 2020. In Healthcare, while we are encouraged by the growth and strengthening in demand in 2019, we remain cautious about extrapolating recent market trends, given the limited visibility we have into the pipeline as the year progresses. At the midpoint of our guidance, we anticipate Healthcare segment revenues will grow organically in the mid-single-digit range in 2020.

Our guidance also reflects mid-single-digit organic revenue growth in the Business Advisory segment. And in the Education segment, we anticipate upper single-digit organic revenue growth for the year.

In terms of margins in 2020, our guidance reflects our commitment to expanding margins and is inclusive of strategic and operational investments that we believe will enhance our revenue growth trajectory, drive deeper operational efficiencies and create opportunities to better leverage our G&A. We remain focused on expanding our margins while investing in areas with the greatest growth potential or efficiency gains. We continue to believe that we have created a strong foundation from which we can sustainably grow revenues while improving margins over time, consistent with our long-term financial objectives.

Finally, today, we announced the hiring of our new General Counsel. Last year, Diane Ratekin approached me about her plans to retire. Diane has played a critical role in our organization since she joined Huron in 2005. She is a proven and respected leader who has demonstrated a deep commitment to our business and our people. She has made significant contributions that have helped position the organization to achieve our strategic goals and objectives. I want to express my deepest gratitude and appreciation for all Diane has done during her 15-year tenure at Huron. We congratulate her on her retirement.

Next week, we will welcome Ernie Torain to Huron. Most recently, Ernie spent nearly 10 years at Illinois Tool Works most recently serving as Associate General Counsel. Ernie's broad expertise across a range of disciplines will be an asset as we continue to execute on our strategy. I look forward to officially welcoming Ernie to the Huron team.

In summary, 2019 was a strong year for Huron, and I want to thank the entire Huron team for their hard work, dedication and commitment to our clients, our company and to each other. We do not take our recent success for granted and remain focused on executing our strategy. In 2019, we saw the fruits of our recent investments in new offerings begin to take hold, and I'm excited about how those investments will continue to shape our business in 2020.

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

John D. Kelly - *Huron Consulting Group Inc. - Executive VP, CFO & Treasurer*

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-K and Investor Relations page on the Huron website 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 and why management believes they also -- they provide useful information to investors regarding our financial condition and operating results. Also, unless otherwise stated, our comments today are all on a continuing operations basis. Now let me walk you through some of the key financial results for the quarter.

Revenues for the fourth quarter of 2019 were $232.3 million, up 13.1% from $205.5 million in the same quarter of 2018. The increase in revenues in the quarter was driven by organic growth across all 3 operating segments. For full year 2019, revenue was $876.8 million, up 10.3% from $795.1 million in 2018. As Jim mentioned, the increase in revenue over the prior year was driven by strong organic revenue growth across all 3 operating segments.

Net income was $14.4 million or $0.63 per diluted share in the fourth quarter of 2019 compared to $3.1 million or $0.14 per diluted share in the same quarter in the prior year. For full year 2019, net income was $42 million or $1.87 per diluted share compared to $13.9 million or $0.63 per diluted share in 2018.

Our effective income tax rate in the fourth quarter of 2019 was 18.5% compared to 69.4% a year ago. Our effective tax rate for Q4 of 2019 was more favorable than the statutory rate inclusive of state income taxes primarily due to the change in valuation allowance largely due to realizing deferred tax assets recorded for foreign tax credits and nontaxable gains on the investments used to fund our deferred compensation liability. On a full year basis, our effective income tax rate for 2019 was 20%, which is more favorable than the statutory rate inclusive of state income taxes primarily due to tax benefits related to federal and state tax credits and the change in valuation allowance and nontaxable gains on our investments as previously discussed. These benefits were partially offset by additional tax expense related to disallowed executive compensation.

Adjusted EBITDA was $29.4 million in Q4 2019 or 12.6% of revenues compared to $27.9 million in Q4 2018 or 13.6% of revenues. For full year 2019, adjusted EBITDA as a percentage of revenues increased to 12% compared to 11.4% in 2018.

Adjusted non-GAAP net income was $18 million or $0.79 per diluted share in the fourth quarter of 2019 compared to $14.8 million or $0.66 per diluted share in the fourth quarter of 2018. For the full year 2019, adjusted non-GAAP net income was $61.6 million or $2.74 per share compared with $45.8 million or $2.08 per share in 2018.

Now I'll make a few comments about the performance of each of our operating segments. The Healthcare segment generated 44% of total company revenues during the fourth quarter of 2019 and posted revenues of $103.6 million, up $10.6 million or 11.5% from the fourth quarter of 2018. The increase in revenue was primarily driven by our Performance Improvement solution. On a full year basis, Healthcare revenue increased 9.4%. Performance-based fees for the full year 2019 were $71.1 million compared to $42.7 million in 2018.

Operating income margin for Healthcare was 30.6% for Q4 2019 compared to 32.2% for the same quarter in 2018. The year-over-year decline in margin primarily reflects increased bonus funding based on our full year results. On a full year basis, operating margin was 31.5% compared to 29.6% in 2018.

The Business Advisory segment generated 30% of total company revenues during the fourth quarter of 2019 and posted revenues of $68.9 million, up $3.5 million or 5.4% from the fourth quarter of 2018. Increase in revenue was primarily attributable to our Business Advisory and ES&A practices. On a full year basis, the Business Advisory segment revenues grew 6.9% year-over-year.

The operating income margin for Business Advisory segment was 24.2% for Q4 2019 compared to 23.8% for the same quarter in 2018. On a full year basis, operating margin was 19.7% compared to 21.4% in 2018. The decrease in operating margin year-over-year was primarily attributable to increases in salaries and related expenses and performance bonus expense for our revenue-generating professionals.

The Education segment generated 26% of total company revenues during the fourth quarter of 2019 and posted revenues of $59.8 million, up $12.7 million or 27% from the fourth quarter of 2018. On a full year basis, Education segment revenue increased 15.9% versus the prior year. Our Education business performed well in 2019 driven by strong performance across our research, technology, and strategy and operations solutions.

The operating income margin for Education was 20.9% for Q4 2019 compared to 22.4% for the same quarter in 2018. The quarter-over-quarter decline was primarily attributable to increased bonus funding based on our full year results. On a full year basis, operating margin was 24.8% in both 2019 and 2018.

Other corporate expenses not allocated at the segment level were $34.9 million in Q4 2019 compared with $27.7 million in Q4 2018. The quarter-over-quarter increase in corporate expenses is primarily attributable to a $4.2 million increase in expense related to our deferred compensation plan liability, which was fully offset by the corresponding gain in the assets used to fund this liability recorded as other income. We also incurred higher technology expenses in the fourth quarter of 2019 related to our investments in our corporate and client-facing infrastructure. These increased expenses were offset by lower facilities expenses, including a onetime gain of $700,000 related to the renewal of our Chicago headquarters lease in the fourth quarter.

Now turning to the balance sheet and cash flows. DSO came in at 62 days for the fourth quarter of 2019 compared to 70 days for the third quarter of 2019.

Total debt includes the $205 million in senior bank debt and a $3 million promissory note for total debt of $208 million. We finished the year with cash of $12 million for net debt of $196 million. This was a $57 million decrease compared to Q3 2019 and a decrease of $76 million compared to year-end 2018. Our leverage ratio, as defined in our senior bank agreement, was approximately 1.6x adjusted EBITDA as of December 31, 2019, compared to 2.8x adjusted EBITDA as of December 31, 2018.

Cash flows from operations for 2019 was $132 million, and we used $23 million of our cash to invest in capital expenditures, resulting in free cash flow of $109 million. We also used $13 million of our cash to repurchase approximately 190,000 shares in the fourth quarter to partially offset the dilution created by our share-based compensation programs.

Finally, let me turn to our expectations and guidance for 2020. For the full year 2020, we anticipate revenues before reimbursable expenses in a range of $900 million to $940 million, adjusted EBITDA in the range of 12% to 12.8% of revenues, and an increase in adjusted non-GAAP EPS in a range of 1% to 12% over 2019.

Note that our 2019 adjusted non-GAAP EPS included the impact of several favorable credits and deductions that lowered our GAAP effective income tax rate to 20%. Normalizing our 2019 adjusted non-GAAP EPS to reflect our statutory rate inclusive of state income taxes of 26% to 27%, the increase in anticipated adjusted non-GAAP EPS in 2020 would be in the range of 6% to 18%.

We expect cash flows from operations to be in a range of $110 million to $120 million. Capital expenditures are expected to be approximately $18 million to $22 million. And free cash flows are expected to be in the range of $90 million to $100 million net of cash taxes and interest and excluding noncash stock compensation.

Weighted average diluted share count for 2020 is expected to be 22.5 million shares. The guidance assumes the 2020 incremental dilution from our share-based compensation programs is offset by share repurchases.

Finally, with respect to taxes, you should assume an effective tax rate in the range of 28% to 30%, which comprises the federal tax rate of 21%, a blended tax rate -- a blended state tax rate of 5% to 6%, and incremental tax expense related to certain nondeductible expense items.

Let me add some color to our guidance starting with revenue. The midpoint of the revenue range reflects 5% organic revenue growth over 2019 revenue of $877 million. Embedded in the guidance range are expected performance-based fees in the Healthcare segment in the range of $40 million to $50 million.

Before I provide commentary on the segments, I'd like to address one administrative item. Beginning in the first quarter of 2020, we'll be reclassifying certain data and hosting charges related to our client-facing solutions as a component of segment operating margin as opposed to unallocated corporate SG&A. We expect these expenses to total $4.5 million for full year 2020. We are reclassifying these expenses from corporate SG&A to the segments to better match the cost with related revenue and manage the performance of our segments as data and analytics becomes a larger component of our offerings.

With regard to the Healthcare segment, we expect mid-single-digit revenue growth for 2020, and we expect operating margins will be approximately 29% to 31% reflecting stable billing rates, slightly moderated utilization, continued investment in our strategic opportunity areas, the previously mentioned data hosting charges, and the economics of our recently announced large Managed Services contract.

In the Business Advisory segment, we expect to see mid-single-digit revenue growth for 2020. We expect our operating margin in this segment to be in a range of approximately 20% to 22%.

In the Education segment, we expect upper single-digit revenue growth for 2020, and we expect operating margins will be approximately 24% to 26%.

Our 2019 unallocated corporate SG&A was $140.3 million and included $4.5 million in expense related to our deferred compensation plan liability, which is fully offset by a corresponding gain in other income related to the increase in the value of our plan assets, and $2.4 million of transaction costs for a transaction that did not ultimately consummate. Normalizing 2019 to remove the impact of these items, we expect unallocated corporate SG&A to increase in the low single-digit percentage range on a full year basis in 2020 compared to 2019.

Turning to the total company. Huron's adjusted EBITDA margin is expected to be in a range of 12% to 12.8% of revenues, an increase of 40 basis points at the midpoint of guidance compared to 2019. This margin expansion is inclusive of corporate technology investments primarily related to an upgrade of our ERP and EPM systems. These technology-related investments are expected to be nearly 60 basis points of margin in 2020 to support the continued growth of our business. We do not expect those technology investments to continue at the same level in 2021.

As a reminder, in the first quarter, we anticipate the following: a planned increase in salaries and related expenses for our revenue-generating employees; the reset of fringe rates at the beginning of the year, including FICA and our 401(k) match, which are fairly significant given our people-driven business; the impact of 3 annual practice leadership meetings taking place in the quarter; and an increase in stock compensation expense for restricted stock awards that will be granted in March to retirement-eligible employees. Based on these factors and similar to 2019, we anticipate approximately 15% of our full year adjusted EBITDA and full year adjusted EPS to be generated during the first quarter.

As a closing reminder with respect to 2019 adjusted EBITDA, adjusted net income, and adjusted EPS, there are several items that you will need to consider when reconciling these non-GAAP measures to comparable GAAP measures. The reconciliation schedules that we included in our press release will help walk you through these reconciliations.

Thanks, everyone. I would now like to open the call up to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Tobey Sommer with SunTrust.

Tobey O'Brien Sommer - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

If you could comment and give us some color on that accelerated growth in the Education segment, including updates on where you perceive the opportunity for student-focused ERP tools.

James H. Roth - *Huron Consulting Group Inc. - CEO & Director*

Tobey, this is Jim. We had -- yet again, I think we had a pretty good year across the board in the Education business. The student business, amidst all that growth, was actually quiet for the year, in part that still is attributable to the kind of still evolving maturity of the software platform for student. We're -- that will -- I think, will begin to pick up a little bit in 2020 and will probably pick up in earnest in 2021. It's not to say that there's no work being done in the student area. There's a lot of kind of additional things that are being done at some institutions, particularly some of the smaller ones where it's a little bit less complicated. But we do expect the student in '20 to be better than it was in 20 -- in '19 and even better in '21.

But I think the reality is the practice in general had another very strong year across the board. I think just the demands in education are very significant right now for improving efficiency and just trying to make the business model sustainable. So, we feel good about the way we ended the year, and we feel very good about the way that 2020 is picking up in the Education business.

Tobey O'Brien Sommer - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

And turning to Healthcare, the bill rates were up a decent amount year-over-year. Could you describe the puts and takes that drove that change?

John D. Kelly - *Huron Consulting Group Inc. - Executive VP, CFO & Treasurer*

Sure, Tobey, this is John. So, the bill rates were high in the fourth quarter. We had several projects where the benefits that we drove for our clients, Performance Improvement projects, or what I was referring to, were better than what we had initially anticipated at the beginning of the year. We also had a few jobs where our efficiency in executing the deliverables was a little bit better. So that had the benefit of increasing the rate during the fourth quarter. I'd probably quantify the impact of those items is about $20 on the bill rate. So I think if you were -- I made comments in my prepared remarks that we expect there to be stable bill rates into 2020, and I'd say stable with regard to our full year, which is more in that $230 range versus the $250 that we saw in the fourth quarter.

Tobey O'Brien Sommer - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Okay. Last question from me, and then I'll get in the queue. With respect to your guidance at the top line, you exit 2019 with a relatively rapid rate of revenue growth and headcount growth, yet the guide is for about 5% revenue growth, if I made my calculation correct. Could you just discuss the puts and takes that would maybe cause there to be a slowdown in growth or whatever other factors you may have included in arriving at that guidance?

James H. Roth - *Huron Consulting Group Inc. - CEO & Director*

Tobey, it's Jim. I'll -- John will have some commentary as well. But I think in essence for us, it's just -- we feel good about the way we've turned the corner, but I think it's just the continued lack of visibility we have in terms of the longer term. As we get into the out quarters of the year, I do feel like for us just given the kind of the uncertainties in the market, we prefer not to extrapolate the second half of the year or even the fourth quarter into 2020. So, we do look at the underlying demand. It remains strong. We look at the complexity of the issues that -- where the demand is coming from, and they also remain strong. But we're just being cautious in terms of our guidance in response to the fact that we just don't have great visibility into the out quarters.

John D. Kelly - *Huron Consulting Group Inc. - Executive VP, CFO & Treasurer*

And the part that I'll add is the internal targets for all of our teams, as we probably talked about before, are set higher than what our guidance ranges are. So clearly our teams are pushing to be up towards the upper end of that range. But nonetheless, as Jim says, just given the nature of our work and the fact that by the time you get out to the third and fourth quarter next year, we have less visibility, we went with more cautious guidance at the outset of the year.

Tobey O'Brien Sommer - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

I understand that for the back half of the year in terms of visibility. Has visibility changed and deteriorated? Or is that just the nature of the business right now?

James H. Roth - *Huron Consulting Group Inc. - CEO & Director*

No, I think we -- it hasn't changed. I think it remains strong, but it's just, again, what we're just doing is we're being cautious about trying to project that strength into the later quarters of the year.

Operator

And our next question comes from Bill Sutherland with The Benchmark Company.

William Sutherland - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

I wondered if we could get a little more color on Business Advisory, the 3 or 4 components, and how they look individually going into the year.

John D. Kelly - *Huron Consulting Group Inc. - Executive VP, CFO & Treasurer*

Sure. So, are you talking more from a guidance perspective, Bill? Or how it closed out 2019, or both?

William Sutherland - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

Kind of both. Just a feel for how they're tracking and kind of contributing to the outlook.

John D. Kelly - *Huron Consulting Group Inc. - Executive VP, CFO & Treasurer*

Yes, I'll start, and I'm sure Mark or Jim may have some color commentary. But ES&A, they closed out 2019 with strong growth. And when we look at our pipeline and our opportunities there, we continue to be very encouraged about their growth prospects. Their offerings right now are very much in demand with our clients who increasingly want better data, better analytics, and need that to run their businesses. And also, they've got very strong industry expertise, not only in healthcare and education, but also in financial services, energy and industrial, so we feel like they're very well positioned in the market.

The Legacy Business Advisory team had a really strong close-out to 2019, very strong revenue growth there. They continue to have a strong pipeline, strong conversion in Q1, so we feel good about that business. From an Innosight perspective, they closed out the year down relative to last year, but that was really in large part explained through a very tough comp from 2018. If you recall, they were very hot towards the end of 2018. They actually had 40% organic revenue growth for the full year 2018 versus 2017. So, it wasn't a surprise to see them take a little bit of a step back in 2019. With that said, their offerings are still very strong in the market. They're still serving very prestigious clients and still partnering very well with our other businesses, so we're encouraged there.

And then from a Life Sciences perspective, they had a relatively low growth rate in 2019, but they've been investing in the business in terms of bringing in talent. And we're encouraged that with all the activities that there is going on in the life sciences industry right now, that we're positioned to have a year of strong growth in 2020.

William Sutherland - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

And I wanted to understand a little bit better the impact of Adventist, your relationship with them in terms of how the numbers -- their impact on the 2020 healthcare numbers.

John D. Kelly - *Huron Consulting Group Inc. - Executive VP, CFO & Treasurer*

It -- yes, it's largely as we described it in the last quarterly call, Bill. So, they're adding to the growth for the year, but it's -- to be very clear, it's not all incremental. They were also a large PI client of ours in 2019, so I think of it as conservatively $15 million of incremental revenue in 2020. And then from a margin perspective, the nature of that arrangement is slightly below, I think we said this on the last quarter call, our typical PI margins within that business. So, it factors into the mix, moderating our EBITDA margin there, but it's not a huge factor.

William Sutherland - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

Okay. And then last one, capital allocation, are you still as focused on debt reduction this year? Or do you have other -- I know you've got some share repurchase you have to do plus some Capex, but just wanted to get a sense of any change in the velocity on that.

John D. Kelly - *Huron Consulting Group Inc. - Executive VP, CFO & Treasurer*

I think our -- we expect to have a pretty balanced approach in 2020, Bill. So, as you said, we intend to offset the dilution from our share-based compensation programs with buybacks during the year. And in fact, we did that -- or some of that towards the end of the fourth quarter and continued some of that into the first quarter.

From a M&A perspective, while our focus is clearly on organic growth as we explore our strategic opportunity areas, there may be situations where tuck-in-type acquisitions could makes sense to accelerate our growth or give us an advantage in the market. So that's certainly a potential deployment of capital.

You referenced Capex. We continue to develop some of our analytics and software solutions, so there'll be some continued deployment there. But then yes, we expect to default, absent those things, to be paydown of debt. And we do expect, absent anything unexpected, that our leverage ratio will continue to decline over the course of the year, though as you know, it will increase at the end of the first quarter due to our annual bonus payouts.

Operator

So our next question comes from Kevin Steinke with Barrington Research.

Kevin Mark Steinke - *Barrington Research Associates, Inc., Research Division - MD*

So you talked about in reference to the adjusted EBITDA margin guidance for 2020, some investments included in there. You specifically called out 60 basis points from ERP and EPM system upgrades. Are there investments beyond that, that we should think about being incorporated in that guidance? Or is that kind of the bulk that we should think about that 60 basis points?

John D. Kelly - *Huron Consulting Group Inc. - Executive VP, CFO & Treasurer*

I would describe that, Kevin, as the incremental part for this year. That's an item that we expect to be an outlier for the 2020 year as we upgrade those systems and that we don't really expect to repeat at the same level in 2021.

As far as our client-facing investments, we continue to invest in that area, particularly as we see those areas increasingly contribute to our revenue growth and our pipeline. So last year, I think we described those client-facing investments in about 100 basis points of margin. I'd say that's a similar metric to think about this year as far as us hiring ahead of demand and building out solutions internally that we think are going to resonate really well with our clients.

Kevin Mark Steinke - *Barrington Research Associates, Inc., Research Division - MD*

Okay. Just following up on the ERP and EPM system upgrades, I mean have you thought about any potential disruption to the business? Just sometimes there's -- could be change management things cropping up as people switch to different systems. I mean do you see any potential variability coming out of that? Or maybe any comment on that and maybe the implementation timeline for those projects.

John D. Kelly - *Huron Consulting Group Inc. - Executive VP, CFO & Treasurer*

Sure, Kevin. So, we started towards the end of the fourth quarter and expect to be implementing throughout 2020 with a go-live beginning in the first quarter of 2021. So, we certainly are planning for all those potential risks that you talked about. Change management is a very big part of our implementation approach and something that we're very focused on. The good news from our perspective is we have our internal consulting teams helping us with the deployment. And from our perspective, we feel we're in good hands in that nature in that we've got the very best helping us out with that implementation. So, I'm more confident that we're going to hit our timelines, but certainly that confidence comes from a lot of advanced planning to manage those risks that you mentioned.

Kevin Mark Steinke - *Barrington Research Associates, Inc., Research Division - MD*

Okay. And maybe give us a sense of what gets you to the top or the bottom of that margin guidance. It's a fairly wide range to start the year. Obviously, less visibility at the beginning of the year, but what are the factors you've considered as you think about that margin range from top to bottom?

John D. Kelly - *Huron Consulting Group Inc. - Executive VP, CFO & Treasurer*

So Kevin, this is John. I'll -- I would describe it as that the upper end of the range, there's certainly a mix that factors in there, to the extent that our revenue is coming from some of our offerings that have higher margin contributions, that would push us up towards the end of the range. Whereas some of our other offerings that have a lower contribution margin, if that's where the growth comes from, more than expected that could push us towards the lower end of the range. To the extent that we're able to drive really high utilization across the business, that will be something that would push us up towards the top of the range. Whereas obviously conversely, if we have lower utilization, that would get us towards -- more towards the bottom of the range. But I'd say the biggest driver from my perspective is really that mix of business as well as our ability to have very effective utilization.

Kevin Mark Steinke - *Barrington Research Associates, Inc., Research Division - MD*

Okay. And then maybe just talk a little bit more about in the Business Advisory segment, you mentioned the significant inroads into the commercial sectors. Maybe just talk more about that effort, how much more you'd like to accomplish there going forward.

C. Mark Hussey - *Huron Consulting Group Inc. - President & COO*

Yes. Kevin, this is Mark. Let me weigh in on this one. If you look back 4 years ago, we were substantially a health and education company at the time. And really what you've seen, perhaps not advertised in our efforts, has been an underlying growth in the Business Advisory capabilities that we've had. Much of that is aligned with helping with capabilities in the health and education segment -- segments. And really that has been, over time as we've talked about, roughly 30% of the revenue coming out of that segment over time.

What we haven't talked about is the 70% and what is going on in that side of the business. As we look ahead for where we're trying to build the business, we do see a very significant opportunity to lead with industry first, where we have good solid expertise and then really follow that on with capabilities. And with the practices that we have within that segment, we think there's more opportunities for us to really leverage additional growth there.

So, to the point that John made with respect to maybe focused M&A., I think you'll see us just continuing to refine our thinking over the course of the year. I think this is evolutionary in terms of its direction. But clearly based on the positioning and the success we've seen in market in those particular areas, we feel pretty confident in the direction of advancing the commercial side.

James H. Roth - *Huron Consulting Group Inc. - CEO & Director*

And this is Jim. I think the only thing I would add on to what Mark said was that from a market perspective, if we go back and look at when we go to and make competitive bids in financial services clients, or in oil and gas clients, or in retail clients we're going -- we have over the last 2 or 3 years, continued to increase the size of the jobs we're getting. We're increasing the size of the companies we're serving. They're getting -- the jobs themselves are getting more and more complicated, and we're winning against pretty formidable competitors.

And when you look back -- so we're certainly proud of that. But if you go back and say, why are we doing that, I think it's because we continue to assemble a really talented group of people that have that industry knowledge, and that we have also been able to demonstrate because of the size of our company, kind of the nimbleness that I think some of our competitors struggle with at times. So we feel like we're in a really good sweet spot in the market as it relates to both the kind of skills we can bring to market and our ability to be nimble and you put it together and we don't -- we certainly don't win everything, but we win a lot against some pretty formidable competitors. And if you did that once, you'd say that was good. If you did a number of times, as we've been doing it, you say there's something going on here. And we feel like we've just got a good combination.

So that's what gets us more and more comfort that we can continue to make progress in these commercial segments because we have been able to attract some great, talented, experienced recruits in to help us improve our competencies. And it's paying off, and it's paying off. The jobs are getting bigger. The clients are getting larger as well. And you put it all together, we feel really good about our ability to continue to expand the commercial part of our business.

Operator

And we have a question from Andrew Nicholas with William Blair.

Andrew Owen Nicholas - *William Blair & Company L.L.C., Research Division - Analyst*

I guess first, as we're a bit closer now to the election in November, are you seeing any material change in your clients' willingness to move forward with bigger decisions? Or maybe said differently, are there any clients that have become more cautious as we approach the election, in your view?

James H. Roth - *Huron Consulting Group Inc. - CEO & Director*

Yes, Andrew, this is Jim. Yes, I'm sure there's some out there, but it really hasn't become noticeable to us yet. I think there's really nothing that we're seeing that we could point to that say that there is a softness due to uncertainty around the political arena. We just haven't seen it yet. Could it emerge, maybe, but I think my sense is people are kind of getting used to all this uncertainty. And so, I think at this stage, we don't think there's anything that we could point to that would indicate that that's an issue for us.

Andrew Owen Nicholas - *William Blair & Company L.L.C., Research Division - Analyst*

Got it, got it. That's helpful. And then now that you're a couple of months into the Adventist relationship, I was wondering if you could just kind of speak to early progress or early successes in that relationship, if there have been any conversations with new prospects that have opened up as a result of that announcement. And then sorry for the multipart question, but just a last item from a disclosure perspective, are the incremental hires tied to that augmented relationship included in the segment's headcount?

John D. Kelly - *Huron Consulting Group Inc. - Executive VP, CFO & Treasurer*

Andrew, this is John. I'll start with your first question. Obviously, we're still in the early phases of the contract with Adventist now, but we're extremely pleased with the efforts of our team on this project to date and the impact that we've been able to have working with Adventist. The collaboration between our team and the Adventist team has led to a very smooth transition for our people, and we're very excited about our ability to drive financial benefits for Adventist as we move forward. So, all good on that front so far.

From a headcount perspective, no, those -- that incremental headcount that we picked up in relation to that contract shows up in the FTE line item. The billable headcount is not impacted by that.

I think one other element to your question was just pipeline in these types of projects. I would say our focus at this point continues to remain focused on the Adventist contract and really making this a win for our people and for their people. So that's where our focus remains right now.

Operator

Thank you, and I'm showing no further questions in the queue. I'd like to turn the call back to Jim Roth for any closing comments.

James H. Roth - *Huron Consulting Group Inc. - CEO & Director*

Thank you very much for spending time with us this afternoon. We look forward to speaking with you again in April when we announce our first quarter results. Have a good evening.

Operator

This concludes today's conference call. Thank you, everyone, for your participation. You may now disconnect. Everyone, have a great day.