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HURN.OQ - Q3 2021 Huron Consulting Group Inc Earnings Call

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CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

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

Jasper James Bibb *Truist Securities, Inc., Research Division - Associate*

Joshua David Vogel *Sidoti & Company, LLC - Analyst*

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

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to Huron Consulting Group's webcast to discuss financial results for the third quarter 2021. (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 a 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 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 third quarter 2021 earnings call. With me today are John Kelly, our Chief Financial Officer; and Mark Hussey, our President and Chief Operating Officer.

Third quarter revenues grew 9% year-over-year, driven by growth across all 3 operating segments. The solid growth coming off the heels of significant pandemic-related impact on our 2 largest industries demonstrates the solid foundation of talent we have built to deliver our services. Our pipeline remains robust, and we are focused on converting sales opportunities to enable a strong start in 2022.

I will now provide additional insight into our third quarter performance and then provide color on our expectations for the remainder of 2021. During the third quarter, Healthcare segment revenues grew 6% over the prior year quarter, reflective of the continued recovery for our offerings in the health care industry as the pandemic appears to be waning. As a reminder from our prior earnings call, the strong second quarter revenue in the Healthcare business included the achievement of certain performance-based milestones which came earlier in the year than we had anticipated.

In the third quarter, the delayed timing of certain project start dates and minor pauses in other projects related to the Delta variant surge created a modest headwind to our overall year-over-year growth. In the third quarter, however, we were able to start work on several significant new projects, and we continue to build a robust pipeline and experience near pre-pandemic demand for our assessments in our performance improvement business.

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The buildup of our pipeline is consistent with the challenges many hospitals and health systems are facing at this stage of the pandemic, notably: increased labor costs, inefficiencies in clinical services due to COVID-related restrictions and importantly, significant morale issues among the physician and nursing staff that are leading to higher turnover and staffing shortages. None of these issues are likely to ebb in the coming year, which will likely lead to increased pressure on margins across our entire client base. We believe that these attributes will enable us to accelerate growth in the fourth quarter and into 2022.

In summary, our full year expectations for this business remain consistent with our previously communicated outlook. Amidst these industry pressures, we are well positioned to help our clients navigate the current challenges while providing strategic, operational and technology services that prepare them for success in a still rapidly changing health care environment.

Our Healthcare business has evolved in recent years in anticipation of the changing landscape for many of our clients. For example, historically, our Healthcare business focused predominantly on revenue cycle and cost improvement. Today, in addition to our traditional performance improvement offerings, we have evolved to add extensive capabilities for clinical transformation, strategy, clinical and administrative technologies and analytics.

Our clients are looking for a comprehensive set of offerings from an experienced team and our 1,200-plus team of health care consultants provide a full suite of capabilities that help our clients address challenges that are more intense and potentially more disruptive than any other time in recent history.

Turning to the Business Advisory segment. In the third quarter of 2021, Business Advisory segment revenues grew 6% over the prior year quarter. This growth was driven by our digital technology and analytics and strategy offerings, which together grew nearly 20% quarter-over-quarter. That growth was offset by lower revenues in our distressed advisory business, reflective of the difficult comparisons to the third quarter of 2020 and lower revenues in our Life Sciences business. We expect our distressed advisory offerings will achieve solid growth in the fourth quarter with the signing of new engagements and the anticipated closing of several broker-dealer success fees.

This segment, which focuses primarily on serving the commercial sector, did not experience a material downturn in demand during the pandemic. Although our strategy business was challenged in 2020, demand has picked up significantly this year, including the most recent quarter. Our technology business, which is the largest business within the Business Advisory segment, has continued to perform well over the past 18 months, and the third quarter was no exception. The growth of our commercial business and the continued expansion of our technology and analytic offerings are anticipated to lead to double-digit growth during the coming years in this segment.

During the third quarter, we announced our intent to sell our Life Sciences practice, and I'd like to provide some color into our rationale for the divestiture. During our recent refresh of our 5-year enterprise strategy, we concluded that our best opportunities for growth and margin expansion lie in areas outside of our life sciences, commercial strategy, pricing and market access practice. Accordingly, we commenced a process to divest this business to concentrate our resources in the areas that represent the best growth opportunities for Huron. Going forward, Huron will continue to serve the life sciences industry through our Innosight, digital and business advisory capabilities.

Turning now to the Education segment. In the third quarter of 2021, Education segment revenues grew 18% over the prior year quarter, driven by strong demand for our student, research and strategy offerings. During the third quarter, we also saw our pipeline for our technology-related offerings begin to convert, giving us confidence that revenue stemming from our cloud implementations will continue to strengthen in the fourth quarter and into 2022. The array of changes taking place in this industry has and will continue to create significant opportunities for Huron.

The need to efficiently manage a complicated, decentralized educational institution is driving demand across our full spectrum of administrative, research and academic offerings. In addition, technology continues to play a substantive role in changing the way education is delivered and administered. Our highly experienced team is well prepared to help our clients address the challenges that are endemic across the higher education industry as institutions, both large and small, compete in this rapidly evolving environment. The historical trajectory for this business yielded 5 years of double-digit revenue growth.

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That streak ended with the pandemic, which proved to be too much of a headwind to sustain the historical strong performance. We suspect that the pandemic would exacerbate the many challenges facing educational institutions and that the trajectory of the revenue growth in our Education business would return when the challenging circumstances began to wane. And we were correct on that front. The third quarter showed strength across our strategy and operations, research and student offerings and we won some meaningful new ERP engagements after a brief lull in the past 18 months. Our backlog and pipeline provide us with confidence that historical growth rates have returned for this business.

Let me now turn to our outlook for the year. As our press release indicates, we are narrowing our annual revenue guidance to $885 million to $905 million, increasing the midpoint by $5 million to $895 million. We are also affirming our adjusted EBITDA guidance in a range of 10.8% to 11.3% of revenues. And narrowing our adjusted diluted earnings per share to a range of $2.53 to $2.63, increasing the midpoint to $2.58.

While our business strengthens as the pandemic begins to wane, our updated guidance reflects the continued momentum we anticipate in our business driven by the market demand for our services.

Now let me turn it over to John for a more detailed discussion of the 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-Q and Investor Relations page on the Huron website have reconciliations of these non-GAAP measures to the most comparable GAAP measures, along with the discussion of why management uses these non-GAAP measures and why management believes they provide useful information to investors regarding our financial condition and operating results. Also, unless otherwise stated, my comments today are all on a continuing operations basis. Also, the divestiture of our Life Sciences business, the closing of which we announced this morning, is included in our results for the quarter in the Business Advisory segment.

Now let me walk you through some of the key financial results for the quarter. Revenues for the third quarter of 2021 were $224 million, up 9.1% from $205.3 million in the same quarter of 2020. The increase in revenues in the quarter was driven by growth across all 3 operating segments. Net income was $13.7 million or $0.64 per diluted share in the third quarter of 2021 compared to $11.1 million or $0.50 per diluted share in the same quarter in the prior year. Our effective income tax rate in the third quarter of 2021 was 12.5% compared to 17.7% 1 year ago. Our effective tax rate for Q3 of 2021 was more favorable than the statutory rate, inclusive of state income taxes, primarily due to discrete tax benefits for U.S. federal return to provision adjustments related to the 2020 corporate income tax return.

Adjusted EBITDA was $26.4 million in Q3 2021 or 11.8% of revenues compared to $23.6 million in Q3 of 2020 or 11.5% of revenues. Adjusted non-GAAP net income was $16.8 million or $0.78 per diluted share in the third quarter of 2021 compared to $13 million or $0.59 per diluted share in the same period of 2020.

Now I'll make a few comments about the performance of each of our operating segments. The Healthcare segment generated 42% of total company revenues during the third quarter of 2021. This segment posted revenues of $92.8 million for the third quarter of 2021, up $5.4 million or 6.2% from the third quarter of 2020. The increase in revenue primarily reflects increased demand for both our performance improvement and revenue cycle managed services offerings.

Operating income margin for Healthcare was 32.6% in Q3 2021 compared to 29.3% for the same quarter in 2020. The increase in margin over the prior year quarter was primarily attributable to a decrease in performance bonus expense year-over-year.

The Business Advisory segment generated 31% of total company revenues during the third quarter of 2021. The segment posted revenues of $70 million in Q3 2021, up $3.9 million or 5.9% from the third quarter of 2020. Revenues for the third quarter of 2021 and included $4.5 million from our acquisitions of ForceIQ and Unico Solution. Revenues for the third quarter of 2021 also included $5.1 million from our Life Sciences practice, which was divested during the fourth quarter of 2021. The quarter-over-quarter increase in revenue was driven by our strategy and digital technology and analytics offerings.

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The operating income margin for the Business Advisory segment was 14.1% for Q3 2021 compared to 16.3% for the same quarter in 2020. The quarter-over-quarter decline in margin was primarily due to increases in salaries and related expenses for our revenue-generating professionals and contractor expense as percentages of revenues. The operating margin also reflects the timing of success fees from our broker-dealer, which had fewer success fees in the third quarter than we anticipate in the fourth quarter. These decreases were partially offset by a decrease in performance bonus expense for our revenue-generating professionals.

The Education segment generated 27% of total company revenues during the third quarter of 2021. The segment posted revenues of $61.2 million in Q3 2021, up $9.3 million or 18% from the third quarter of 2020. The increase in revenue reflects increased demand for our student, research and strategy offerings. The operating income margin for Education was flat at 24.2% in the third quarter of 2021 when compared to the same quarter in 2020.

Other corporate expenses not allocated at the segment level were $31.4 million in Q3 2021 compared with $29 million in Q3 2020. Unallocated corporate expenses in the third quarter of 2021 include $400,000 of income related to the decreased liability of our deferred compensation plan, which is fully offset in other income by the corresponding loss in assets used to fund that plan. Unallocated corporate expenses in the third quarter of 2020 included $1.8 million of similar expense related to our deferred compensation plan.

Excluding the impact of the deferred compensation plan in both periods, the $4.6 million increase in unallocated expense primarily relates to increases in share-based compensation and salaries and related expenses for our support resources, restructuring charges, software and data hosting expenses and legal expenses, partly offset by a decrease in performance bonus expense for our support resources.

The year-over-year third quarter increase in stock compensation expense primarily reflects a reduction in expense related to our long-term incentive plan for executive officers in the third quarter of 2020 due to revised projections related to the pandemic at that time.

Now turning to the balance sheet and cash flows. DSO came in at 76 days for the third quarter of 2021 compared to 73 days for the second quarter of 2021 and 62 days for the third quarter of 2020. The increase in DSO during the quarter is related to a slight increase in working capital primarily due to certain larger health care and education projects with contractual payment schedules where we anticipate to bill and collect in the fourth quarter of 2021, and in some cases, the first quarter of 2022, coupled with a decrease in revenue during the quarter compared to the second quarter of 2021. We expect DSO to normalize to around 65 days over the remainder of 2021.

Total debt includes the $260 million in senior bank debt and a $3 million promissory note for a total debt of $263 million. We finished the quarter with cash of $11 million for net debt of $252 million. Our leverage ratio, as defined in our senior bank agreement, was approximately 2.7x adjusted EBITDA as of September 30, 2021 compared to 2.1x adjusted EBITDA at the end of Q3 2020. We expect to finish the year with a leverage ratio below 2x adjusted EBITDA.

Cash flow generated from operations in the third quarter of 2021 was $33.8 million, and we used $4.6 million of our cash to invest in capital expenditures, inclusive of internally developed software costs, resulting in free cash flow of $29.2 million.

During the third quarter, we repaid $12 million in company portion FICA taxes related to 2020 that had been deferred under the CARES Act. We used $25 million of our cash to repurchase shares of our common stock during the quarter, bringing the year-to-date total up to $60.2 million. We now expect free cash flow for the full year 2021 to be at the low end of our original guidance range of $55 million to $75 million.

We anticipate our conversion of adjusted EBITDA to free cash flow in 2021 to be lower than our historical average due to an unusually low DSO of 52 days as of December 31, 2020, which puts some cash receipts that would have normally occurred in the first quarter of this year into the fourth quarter of last year: a slightly higher-than-normal DSO expected as of December 31, 2021 due to contractual payment schedules on certain larger Healthcare and Education segment projects; the previously mentioned 2021 repayment of deferred company portion FICA taxes from 2020 related to the CARES Act; and the anticipated ramp in revenue for the fourth quarter of 2021. We expect our conversion of adjusted EBITDA to free cash flow to normalize to historic levels in 2022.

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Finally, let me turn to our expectations and guidance for 2021. As Jim noted, we are narrowing our full year 2021 revenue guidance to $885 million to $905 million, raising the midpoint to $895 million. In addition, we are reaffirming our full year adjusted EBITDA percentage guidance to be in a range of 10.8% to 11.3% of revenues. And we are narrowing our full year adjusted non-GAAP diluted earnings per share guidance to be in a range of $2.53 to $2.63, raising the midpoint to $2.58. Finally, we expect our full year effective tax rate to be in the low 20% range. Our updated guidance is inclusive of the impact of the divestiture of our Life Sciences practice.

Looking beyond 2021, full year 2022 revenues will reflect the impact of the sale of the Life Sciences business. However, we do not expect any significant impact related to the sale on our adjusted EBITDA margin percentage or adjusted earnings per share after consideration of corporate savings related to the transaction as well as the anticipated use of the transaction proceeds.

We will continue to execute our balanced capital allocation strategy with the proceeds received from the sale as well as our free cash flow in the fourth quarter. We currently intend to use the net proceeds to reduce borrowings, purchase shares under our current share repurchase authorization and execute strategic tuck-in acquisitions.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) I show our first question comes from the line of Tobey Sommer from Truist.

Jasper James Bibb - *Truist Securities, Inc., Research Division - Associate*

This is Jasper Bibb on for Tobey. So I just wanted to ask if you could provide a bit more color on sales conversion in Healthcare and Education. When you discussed your new wins there in the prepared remarks, did sales conversion improve through the quarter, given what I assume would be a favorable backdrop of students back on campus and falling COVID cases?

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

Jasper, this is Jim. Yes, we are -- in the third quarter, we did begin to see, in Education probably more than Healthcare, but I think we're certainly seeing a decent conversion of the backlog. We're expecting that to continue in both practice in Healthcare and Education. I think it was more evident in the third quarter in the Education practice. But in both practices, we're expecting some solid conversion of the backlog that we've been talking about.

And I think the underlying reasons in both cases are the ones that we articulated during the prepared remarks, and that is that the business environment for our clients in both of those industries is still pretty challenged, and we expect it to play out well for us.

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

Jasper, I'll add with regards to the Education segment. Something we've talked about on earlier calls is that we had seen the return to pre-pandemic levels of sales activity related to our research offerings, our strategy offerings. And we discussed that probably just due to the sheer size of some of the technology projects that, that pipeline had been a little slower to open up. I think we've seen now, particularly during the quarter, we've seen that pipeline start to open back up. And so we feel good about the opportunities that we've been able to secure during the year and during the third quarter as well as what the pipeline looks like as we transition into 2022 on the technology side as well.

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Jasper James Bibb - *Truist Securities, Inc., Research Division - Associate*

Yes, that's great. And then the third quarter saw a pretty significant head count growth through to September. What was driving that? Was there a group hire in there? Or is that just your new graduates joining the company? Any color would be great.

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

It's really a mix. It wasn't as much a group hire, I would say, Jasper. It's definitely much more organic hiring. So you do have some new hires, campus hires, as you referred to, but it's also been experienced hires. And really, that growth, we've seen it across the business, Healthcare, Business Advisory and Education. And I would suggest that in all 3 of those segments, that Healthcare growth is reflective of some of those trend lines that we've seen in the pipeline that we discussed.

Jasper James Bibb - *Truist Securities, Inc., Research Division - Associate*

Okay. Last question for me. On a segment level, you talked about demand for the core P&I or S&O practices in Healthcare and Education, but we're still 400 basis points below 2019 utilization in the quarter. So what practices like in each segment would you say are still dragging on that overall utilization figure at this point?

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

Is your question about Healthcare or Education?

Jasper James Bibb - *Truist Securities, Inc., Research Division - Associate*

Just across the business, what kind of practices are keeping utilization down for the entire company?

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

Yes. So I would say, in Education, as John was just indicating, in our kind of ERP area, we knew, as we've been saying all along, that, that was going to be a little bit slow in picking up. We are seeing those conversions come through. We made the comment back in 2020 that we knew -- we felt strongly that this day would come when demand would be pretty robust and that we would be -- had we made decisions of our head count back then, we would have had trouble meeting demand right now. And so we -- the fact that we held on to those people, which is absolutely the right thing to do, is now turning out to be a smart thing because the demand is picking up very nicely, but the utilization -- the lower utilization in our historical norms as a result of the fact that we have held on to business -- people while the business was picking up. And that's frankly true in Healthcare as well.

I think, in both cases, if you look at the last 9 months of 2021, you'll see that our utilization was less than our historical averages, certainly in 2019 and before that. And really, what that was, was just some excess capacity that we knew would be needed when the markets began to pick up. The markets are clearly picking up, and I think you're going to start seeing some changes in those utilization amounts in this quarter and beyond.

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

Yes. I'll just add, Jasper. In addition to that, that bigger picture perspective from Jim, as we referenced on the Healthcare side, there were a couple of projects that got going a little bit later during the quarter than what we had initially anticipated. So that created a little bit of a lower utilization pocket during the quarter. And then as Jim was referring to, both in Education and really within particularly the technology businesses within the Business Advisory segment, when you see that head count growth that you see in the numbers and you see that coming through during the quarter, there's just a natural amount of time there to get new hires trained and simulated before there's really just a ramp before they get going

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on billable projects. And so I think you're seeing some of that too with such high hiring volumes. Some of that ramp impact was a little bit of a dampener on utilization during the quarter.

Operator

I show our next question comes from the line of Andrew Nicholas from William Blair.

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

The first one, I actually think that I asked something quite similar last quarter, but I think it's still topical, and that's just with respect to the hiring environment. You hear a lot about wage pressures, difficulty opening -- finding staff or consultants for open positions. So I just wanted to get your temperature on that dynamic within the business and really the extent to which the tightening labor market is having any impact on your hiring, whether it's to date or even your expectations for next year.

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

Andrew, this is Jim. Yes, it's a real thing. I mean there's no question about it. I think we talk to our clients, we talk to our competitors, and this is a real thing. It's just -- I wish it was otherwise, but it's not. There is a tightening in the labor market. There is the transition that we've all been reading about. And is it affecting us? Yes, it is. Is it -- if you compare our turnover, for example, to 2020, it's higher, obviously, this year than it was last year, which I think is true across the board.

If you even out the last 2 years, our turnover has been about the same. But the hiring market is the one where -- I mean we are able to get people, that's not an issue. There is some price, there is some compensation pressure, there's no question about that. But I think it's all up for us. It's all still within the reasonable range of what we've planned for and considered, and so it's there. It's not having 0 impact, but it's not the biggest impact for us that we're worried about.

We feel -- we go back, we talk about this all the time. We are -- we have a very strong and good culture here. I think people know about that. And when they -- we try to recruit into this business, people really know and understand that we have something different here and that people want to have a -- want to work in that kind of environment. So we're very proud of that. I think that culture, which is always important, becomes hugely important at a time like this when people are making decisions that have different options to choose from.

So a long way of saying it is having an impact, but I think it's not so material that it's going to -- we're not -- it's not dramatically affecting our financial results nor our ability to meet the market demand in any significant way.

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

Maybe I'll just add to that, Andrew. From a margin perspective, to Jim's point, I think in the long run, we think it will all fit within the parameters of our margin objectives. I think in the short run, when we look across the landscape, the tightening labor market, that's not just a Huron thing, I think we see that across all the professional services firms that we talk to. And so understanding that, we do expect that to eventually flow through to pricing on the pricing side, but that just doesn't happen overnight.

And so the reality is it will take a little bit of time for that to flow through pricing. A lot of the revenue that we're working now was sold in earlier periods. We have existing agreements. And so it will sequence in over time, and you'll start to see some of the firming on the other side, on the pricing side. So I think that's why we view it to be, in the short term, a little bit of a headwind to our margin expansion, but we're more optimistic in the longer term.

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

That's helpful. And then for my follow-up, a bit of a bigger picture question. Jim, I think you mentioned in your prepared remarks that the Life Sciences divestiture was at least in part due to -- or was a result of a 5-year strategy process or planning exercise. And I was just wondering if there's any other kind of major takeaways from that exercise or from that process that you'd be willing to share just thinking about as this company continues to evolve over the next several years?

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

Yes, Andrew. So yes, I mean, our strategy process is really -- is still -- we're still working through it. But I mean we're still going to continue to focus on our core industry verticals, which have been really helpful. We have, as we've indicated, a very strong technology base that we are very -- I think is in very much in demand in the market right now. And so I think our ability to apply our strategy and operations and technology business to those industry verticals that we're the strongest in, I think, is going to be a major part of our go-forward strategy for the next 5 years.

We look at the industries that we serve and there are -- there's plenty of room for growth and expansion in terms of kind of our ability to serve those businesses. It's clearly a competitive environment out there for us, and so we recognize that. So every time we go to bat, we ask ourselves the question, what's our right to win, and we focus very clearly on making sure that we have a very good answer for that when we try to serve our clients.

I think in, right now, among our big industries, obviously, health care and education, but also financial services and energy and oil and gas are among some of the ones that we have very strong presence in right now. We're very deep on relationships in those businesses and that we anticipate in our strategy to continue to focus on those. And we will continue to very much focus on the strength and depth of our technology competencies to be able to deliver to those industries as well. So collectively, I think it's going to be applying our industry focus with new technology capabilities. And we're very confident that's going to lead us to the growth and margin improvement that we're looking for.

Operator

(Operator Instructions) I show our next question comes from the line of Kevin Steinke from Barrington Research.

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

Just kind of looking out over the next several quarters and maybe into 2022 here. I know you're not providing guidance at this time for next year, but I'm just trying to frame up how we should think about margins moving into next year and margin expansion, given the growth in your technology services which tend to blend in at a little bit lower margin. And then are you seeing additional travel expenses coming back that we should think about being a meaningful factor going into next year? And we talked about wage inflation, too. So just can you maybe frame that up as we kind of think about margin expansion in the near term and also longer term?

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

Sure. Sure, Kevin. This is John. And just to give a little context, we said at the beginning of the year that we expected it to really be a 2-year process to get our margin levels back to what we saw prior to the pandemic, so think in that 12% range. Meaning, that we would expect to be at 12%-plus level really in full year 2022. And so while, to your point, we're not giving guidance on next year and our operating plan is still being developed, we believe that scenario is still very much intact.

We've been adding heads to fuel growth, but we expect utilization of those heads to return to historic levels in 2022. Obviously, in 2021, we were below those historical norms for most of the year as we ramp back up from the pandemic. But beyond utilization, as our combined technology businesses start to reach increasing levels of scale, we believe that there will be significant margin enhancement opportunities related to a few

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factors: our global delivery capabilities, efficiencies from automation and accelerators that we develop for our offerings, particularly with -- in our core industries that Jim referenced; increased SG&A efficiency; and then the firming client pricing market that I referred to earlier.

So now, an embedded headwind, I guess, when you think about those positives is the wage pressure that we talked about a little bit earlier. But overall, when we look at the opportunities from the scale, from the technology business, we're very encouraged about the trend lines that we see moving forward to expand even beyond that 12% as you start to get past '22 into 2023. So that's kind of the bigger picture view that I'd give you on that, Kevin.

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

All right. That's helpful. So are your people getting back on the road more? How much do you think travel expenses come down over the long term relative to where they were before? Or do they? I mean what's -- kind of what's the model look like going forward with regards to travel?

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

So we -- as a reminder, the majority of our travel is really billable to our clients. And so the majority of the travel doesn't necessarily flow through to our bottom line because we're typically reimbursed for it. But as a point of reference, we probably had about $2 million more travel this quarter than we did a year ago at this time. So we're already seeing some of that pick up. And some of the year-over-year margin expansion that we had this quarter was already net of an increase about $2 million for the quarter. So I would expect -- I think our modeling and our expectations are is that, that is going to continue to ramp, particularly as we get into next year.

But in the context of some of the other factors that I provided, I think that we see a greater upside opportunity to expand our margins and kind of that element of expenses, which we think we'll be able to absorb via some of the margin-enhancing opportunities that I referred to.

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

All right. Good. When we think about -- you mentioned just some delayed project start-ups related to the Delta variant. How much of a headwind should we think about that having been in the third quarter? And does that largely come back or start up then in the fourth quarter?

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

Kevin, that was probably low-single digit million in terms of what the impact on the Healthcare business was during the third quarter. And our expectation, based on what we see now is that the majority of that will be out of the system by the time we get to the fourth quarter.

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

Okay. Great. And then should we think about -- I don't believe you've disclosed it, but proceeds from the Life Sciences divestiture, is that kind of -- should we think about it in line with the revenues the business generated? Or any other kind of yardstick we can use to think about that?

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

Yes. So we haven't disclosed, and we're not going to disclose the specifics around the sale price, but I think a revenue metric is a good way to think about it. And the valuation that we're able to get was accretive in terms of our revenue multiple.

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Operator

I show our next question comes from the line of Josh Vogel from Sidoti.

Joshua David Vogel - *Sidoti & Company, LLC - Analyst*

Looking at digital tech and analytics, I know it's a big chunk of the BA business. And John, you gave some color here already. I guess I was just a little surprised though by the segment's margin compression given that you saw 20% growth in those types of offerings. Can you just remind me like what the margin profile is on that work relative to other nondigital tech and analytics-related offerings? I know distress was a big piece last year. Just some color around that, please.

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

Sure, Josh. So when you think about the segment, the revenue composition of the segment is about half technology offerings. It's about 30% of our strategy business, and it's about 20% our distressed business in terms of revenue. And from a margin blend perspective for this year, we guided to around 20% margins. At this point, we're thinking it's going to be -- that, that was the original guide, was around 20%. At this point, we're thinking it will finish the year in the high teens.

And the technology part of that business has really been kind of mid- to upper teens. But that's also where we think we've got the greatest opportunity for margin expansion going forward. And a lot of those comments that I gave earlier on the terms of opportunities directly relate to that technology business. And we're confident with the scale we're getting in that business, with the industry differentiation we have, with the maturing of our offshore platform in India. We now have 1,000 employees supporting primarily that business in India. We think that there's going to be some nice opportunities for those margins to ramp up over the coming years. But that's where the current blend is. And then, of course, the strategy and distressed businesses blending higher to get to the overall kind of target average for the segment.

Joshua David Vogel - *Sidoti & Company, LLC - Analyst*

All right. Great. And I just have another one here. I understand it could fluctuate from quarter-to-quarter, but I want to get a hand on the Healthcare Managed Services employees. We saw Q3 revenue was down a couple of $100,000 sequentially, but head count was up about 50. So what's the utilization rate there today? And do you feel fully staffed here? Or I guess another way to ask you, what's a good number that you're targeting, given the opportunities you see in the marketplace today? Is this a business staffed up to meet existing engagements only? Or ahead of new ones you see coming in the pipeline?

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

So right now, the team is busy with the projects that we have. So we don't really have any pockets of unutilized resources, at least not any material expense within that business. And that's a nice feature of that business is we think that we have the ability to ramp that business up depending on when those opportunities come through. So I think right now, I've described that team is busy. And we're actively in market seeking other opportunities, and we believe that it's an attractive offering to our clients. And when we get to that point, I think we've got the capacity to transition into new projects and start to ramp up the head count to really scale that business up as we need to over time. But right now, I would describe the head count in there with -- within reason as being rightsized for that amount of revenue that you see, Josh, coming through during the quarter.

Operator

Thank you. Seeing no more questions in the queue, I'd like to turn the call back over to Mr. Roth.

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

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

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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