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HURN - Q1 2020 Huron Consulting Group Inc Earnings Call

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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 first quarter 2020. (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 First Quarter 2020 Earnings Call. With me today is John Kelly, our Chief Financial Officer; and Mark Hussey, our President and Chief Operating Officer.

Before I begin, I'd like to highlight that we have placed supplemental materials on our website at ir.huronconsultinggroup.com to provide additional detail about what we believe impacts -- the impacts to Huron could be related to the COVID-19 pandemic. These supplemental materials should be reviewed in conjunction with our earnings call and not on a standalone basis.

Less than 2 months ago, we reported the best year in Huron's history, and we discussed how excited we were about our prospects for 2020. That excitement and confidence in our future was driven by the significant challenges impacting our clients, the strength of our offerings, and the deep expertise within our incredibly talented team. The momentum we established in 2019 continued into the first quarter of 2020. We started the year strong, with solid performance during the first quarter, driven by organic revenue growth across all 3 operating segments.

Needless to say that, during the past 2 months, our clients' businesses have been deeply impacted by the COVID-19 pandemic and related economic deterioration. While these events should yield strong demand for Huron's business in the future, macroeconomic factors have created significant uncertainty in the near-term. During today's call, I will depart from our traditional approach to earnings calls in order to provide greater detail about how the COVID-19 crisis will impact Huron during the rest of 2020 and to provide some initial thoughts on demand drivers for our business over the medium and longer term.

Let me start with a very brief overview of the first quarter. Huron delivered 9% revenue growth in the first quarter, driven by organic growth across all 3 operating segments, reflecting the momentum from 2019 that continued into the current year. During the first quarter, Healthcare segment revenues grew 2% when compared to the prior year quarter. The quarter-over-quarter growth was primarily attributable to growth in our Performance Improvement solution.

In March, we began to see a sizable slowdown in new work as our clients began to prepare for an anticipated surge in COVID-19 patients. As I will explain shortly, we expect the slowdown to be temporary, as hospitals will emerge into a very different operating environment.

Revenues in our Business Advisory segment grew 10% over Q1 2019, primarily driven by the ES&A and Business Advisory practices. ES&A recorded its highest revenue during the quarter, highest-ever revenue during the quarter. Education segment revenues in Q1 2020 grew nearly 20% over the same period in 2019, as this business also reported its highest-ever revenue during a quarter.

The strong quarter-over-quarter growth was driven by solid demand across all solutions in the segment. We are proud of our first quarter results, but we recognize that our view of the future is more critical to investors at this stage. I will now provide an overview of how we see the rest of the year playing out for the company and each of our practices.

While Huron's adjustment to working remotely has been nearly seamless, the COVID-19 disruption has not been easy for many of our clients. In the first quarter, Huron generated more than 70% of its revenue in the healthcare and education industries, end markets that have been significantly disrupted. How our clients in those markets respond to and evolve following recent events will have a meaningful impact and demand for our services.

As we indicated in our press release, we are withdrawing our 2020 annual revenue and earnings guidance due to the limited visibility in into our pipeline in the near-term. We now believe our Q2 2020 revenues will be approximately 10% to 15% lower than the second quarter of 2019. We don't know how the macroeconomic environment will evolve, nor do we know how quickly the economy will resume as government restrictions are lifted. We do, however, have a sense of what the short-term headwinds may look like, and we have an emerging perspective on new opportunities that we believe are likely to generate favorable demand for Huron when the economy begins to return to a more normal state.

I will now briefly describe the potential headwinds and medium- to longer-term opportunities in each segment to provide additional color as to how we believe demand for Huron's services may evolve in the second half of this year and into 2021. There are 3 primary factors, one of which is negative and two of which are potentially positive for our business that could impact our revenue opportunities as the economy stabilizes.

The first factor is the increasing financial constraints of our clients. Many industries are in far worse financial position than they were when we started the year. Substantial curtailment of revenue and/or significant operating losses may inhibit demand for consulting services.

The second factor relates to the challenging operating environment for our clients and whether extreme financial hardships could cause clients to turn to Huron to help address fundamental concerns about the sustainability of their business models, particularly clients in the healthcare and education industries.

The third factor is the evolving strategic landscape for each of our clients. As we all know, with every crisis comes opportunity, and some clients may turn to Huron to take advantage of market dislocations. The competitive landscape across nearly every industry is going to evolve and changing industry conditions have historically led to increased demand for consulting services.

We've already seen all 3 of these factors come into play during the month of April, and they have resulted in some deferrals of anticipated work, but also some new strategic and operational engagements. And of course, there is previously sold work that is ongoing, and new work that is originating in the normal course of business. Together, while these 3 factors play out differently across our client base, we believe that future opportunities for Huron will outweigh any short-term disruptions to our pipeline.

In our Healthcare segment, our hospital and health system clients are on the front lines in the fight against COVID-19 and are appropriately focused on treating patients and managing the disruption to their businesses. The economic impact for every hospital has been severe, largely attributable to the cancellation of higher-margin elective procedures, a less favorable payer mix stemming from the surge in unemployment, and lower volumes for high-margin services. While there has been, and will continue to be, budgetary relief from the federal government, most hospitals will face significant financial pressures and have materially lower margins for the foreseeable future. These pressures should produce demand for Huron's performance-improving services.

As our healthcare clients move into recovery, we anticipate that our clients' need to evolve their care delivery models will increase. The surge in telemedicine and the need to deliver care outside the 4 walls of the hospital creates opportunities for Huron. As health systems sought to quickly build capacity in anticipation of a surge of COVID-19 patients, we have been contracted by several health systems to implement Medically Homes, virtual hospital-at-home methodology. More broadly, we have brought to market a robust set of recovery services to our health system clients, integrating services from all of our practices to support a broad range of needs for our hospital and health system clients.

Only when the pandemic and economy stabilize will the true impact on our healthcare clients become apparent. There is an urgent need to rethink their businesses and care delivery models while assessing the significant and still-uncertain financial impact. In my discussions with leadership from numerous health systems, the question is not when they can get back to normal, but rather what does the new normal look like. With our deep industry expertise and broad set of strategic, financial, operational and technology-focused offerings, we believe we are well-positioned to help our clients maneuver through the evolving recovery period.

Turning to our Business Advisory segment, understandably, our strategy-focused offerings in our Innosight and Life Sciences businesses have seen a temporary decline in demand as clients focus on immediate actions needed to manage through the pandemic and volatility in the global economy. Given the uncertainty in the near-term for our strategy-focused offerings, during the first quarter, we recorded a goodwill impairment charge for our Innosight and Life Sciences reporting units within the Business Advisory segment. There is no impact to ongoing operations, revenues, cash flows, or financial covenant compliance due to the goodwill impairment charge. While the impairment charge reflects the lack of near-term visibility, we believe we have a strong set of transformational strategy capabilities that will continue to differentiate Huron in the market and are well-positioned to support our clients as they transition into recovery planning.

Our ES&A business, after a very strong first quarter, continued to see solid demand through April. However, limited visibility in the second half of the year leads us to be cautious in predicting future demand. As businesses are forced to rethink how work gets done, they will need to leverage technology to modernize their operations and engage with their customers in response to their evolving competitive landscape. We believe these factors will drive continued demand for our ES&A services.

We expect our Legacy Business Advisory will continue to see strong demand for their restructuring and turnaround services through the remainder of the year due to the challenging financial conditions. With the significant pressures facing all industries and our broad array of services; in strategy in our Innosight and Life Sciences businesses to technology and operations in our ES&A and Business Advisory practices, we believe that there will be ample opportunity for growth ahead for this segment as the economy begins to stabilize.

Turning to Education, for years there has been discussion about the need for transformation in higher education, and it seems to have occurred overnight. While this would have been inconceivable 2 months ago; as of today, not a single U.S. college or university is offering classes on campus. The transition to online delivery of curriculum has been spotty, particularly as it relates to the quality of the content and delivery.

Similar to healthcare, the COVID-19 crisis has decimated the operating budgets for most universities. The looming question now is whether the fall semester will proceed on campus or online. If courses are taught on campus, it will not be business as usual, with most campuses reluctant to bring a full complement of students into cramped dorms and equally reluctant to have those same students in a large lecture hall. If the start of school on campus is deferred, it will be costly for institutions to deliver the quality that students expect, and there could be meaningful reductions in tuition associated with online courses.

So, what does this mean for Huron? During the past 2 months, we have seen some larger technology opportunities get deferred, some for a few months, others indefinitely. We've also seen numerous new engagements focused on helping evaluate strategic and operational options as clients strive to manage the significant financial pressures.

Similar to healthcare, each university will emerge in a worse financial and operational shape when they started the year, and all will face a very different competitive landscape. The opportunities for us could be significant, subject only to potential funding constraints for universities that face a deteriorated business model.

As I mentioned earlier, client decisions to hire consultants will be based on urgency of their current conditions, desire to be strategic in restructuring or assessing new opportunities, and availability of funding. We believe the changes required for higher education institutions to compete in the new environment will create strong demand for our services in the long-term, especially in the large public and private research universities, which are at the core of our business. While we have withdrawn guidance today, we hope to be in a position to reinstate annual guidance when we announce our second quarter results.

Let me make a few final comments. One thing that did not change in the first 4 months of this year is our team's nimbleness and commitment to our clients as we seamlessly transitioned to a remote work environment in early March. I'm incredibly proud of how our people have come together to creatively serve our clients and support each other during this period, who continue to engage their clients and deliver our services with the same high-quality standards, albeit remotely, and we are collaborating in new ways to develop new offerings to meet the rapidly-evolving needs of our clients in this unique operating environment.

During the first quarter, we took swift action to enhance our financial position. We are also taking this opportunity to evolve our own delivery model. Historically, our people spent the vast majority of their time either at clients or working remotely, so the transition to work-from-home has not been overly disruptive. Our clients have now seen how effective we can be working remotely in certain circumstances, and this perspective will likely have significant longer-term benefits for Huron as our clients get increasingly comfortable with our ability to deliver services remotely.

While we are intently focused on managing through this period of uncertainty, we are also focused on the long-term. One action you did not hear me mention relates to our people. Our strong culture has unified us through the work-from-home period, and our goal during this period is to continue to keep the Huron team together. Our clients are facing significant disruption and mounting financial and operational pressures that we believe will drive strong demand for our services as the economy stabilizes. And we will need our team to deliver on this anticipated demand.

While there are many uncertainties in the near-term, we remain confident in our long-term strategy, our ability to adjust to evolving market conditions, the depth of our industry expertise and breadth of our offerings, and our mission-driven team and collaborative culture that sits at the heart of our company. These attributes, coupled with the significant disruption facing our clients and end markets, bode well for the future of this company. We believe that we are well-positioned strategically, financially and operationally to take advantage of opportunities that will result from the current crisis.

This company has come together better than ever before, working across businesses, service lines, and administrative units to help address new needs in the market. I have seen a level of innovation and creativity across our teams that have developed market-facing services in a very short period of time. I want to thank our entire team for all they have done during this unprecedented time. They have demonstrated an incredible amount of agility and creativity while also remaining focused on supporting our clients, our company, and each other.

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-Q 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 provide useful information to investors regarding our financial condition and operating results. Also, my 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 first quarter of 2020 were $222.6 million, up 8.9% from $204.4 million in the same quarter of 2019. The increase in revenues in the quarter was driven by organic growth across all 3 operating segments. Net loss was $42.3 million, or $1.94 per diluted share in the first quarter of 2020, inclusive of the $59.8 million pretax goodwill impairment charge compared to net income of $3.4 million, or $0.15 per diluted share in the same quarter in the prior year.

Adjusted non-GAAP net income was $9.8 million, or $0.44 per diluted share in the first quarter of 2020 compared to $8.9 million, or $0.40 per diluted share in the same period of 2019. Given the lack of visibility in the near-term for our strategy-focused offerings as a result of the COVID-19 pandemic, we concluded that the carrying values of our Strategy and Innovation and Life Sciences reporting units exceeded their fair value as of March 31. As such, we recorded a $59.8 million non-cash pretax goodwill impairment charge in the first quarter of 2020. As Jim noted, with our transformational strategy offering and highly talented team, we believe our Innosight and Life Sciences businesses are well-positioned to support our clients as they transition into recovery planning following the near-term impact of COVID-19.

Our effective income tax rate in the first quarter of 2020 was 21% compared to 29% a year ago. Our effective tax rate for Q1 of 2020 was less favorable than the statutory rate, inclusive of state income taxes, primarily due to incremental tax expense on certain non-deductible business expenses, non-deductible losses on the investments used to fund our deferred compensation plan, and the non-deductible component of our goodwill impairment charges. These unfavorable items were partially offset by discreet tax benefits for share-based compensation awards that vested during the quarter and the remeasurement of a portion of our income tax receivable as a result of the enactment of the CARES Act. Adjusted EBITDA was $19.0 million in Q1 of 2020, or 8.5% of revenues compared to $18.0 million in Q1 of 2019, or 8.8% of revenues.

Now I'll make a few comments about the performance of each of our operating segments. The Healthcare segment generated 43% of total company revenues during the first quarter of 2020. This segment posted revenues of $95.6 million for the first quarter of 2020, up $1.9 million, or 2% from the first quarter of 2019. While not significant to the results of the first quarter, business development activities and pipeline conversion for our Healthcare business were significantly impacted in the latter part of the first quarter, driven by the impact of COVID-19 on our healthcare provider client base.

Operating income margin for Healthcare was 25.2% for Q1 of 2020 compared to 29.7% for the same quarter in 2019. The quarter-over-quarter decline in margin was primarily due to an increase in salaries and related expenses, and share-based compensation expense for our revenue-generating professionals both as a percentage of revenues. As a reminder, our first quarter results included a practice-wide leadership meeting in February and the annual resetting of our wage basis for certain fringe items, like the employer portion of FICA taxes and our 401(k) match.

The Business Advisory segment generated 29% of total company revenues during the first quarter of 2020. The segment posted revenues of $64.9 million in Q1 2020, up $6.1 million, or 10.4% from the first quarter of 2019. The increase in revenue during the first quarter was primarily attributable to the ES&A and Business Advisory practices. The operating income margin for the business advisory segment was 15.2% for Q1 of 2020 compared to 16.3% for the same quarter in 2019.

The quarter-over-quarter decline in margin was primarily due to the restructuring charge recorded in the first quarter of 2020 and the termination of a third-party advisor agreement, as well as increases in share-based compensation expense and salaries and related expenses for our revenue-generating professionals and an increase in contractor expenses, all as a percentage of revenues. These decreases to the segment's operating margin were partially offset by decreases in promotion and marketing expenses and signing, retention and other bonus expenses for our revenue-generating professionals.

The Education segment generated 28% of total company revenues during the first quarter of 2020. Segment posted revenues of $62.1 million in Q1 2020, up $10.2 million, or 19.6% from the first quarter of 2019. The increase in revenue was driven by growth across all solutions in the segment. The operating income margin for Education was 21.1% for Q1 of 2020 compared to 24.3% for the same quarter in 2019. The quarter-over-quarter decline in margin was primarily due to increases in contractor expenses, expenses related to an all-practice leadership meeting, which was not held in 2019, and salaries and related expenses for our revenue-generating professionals, all as a percentage of revenues.

Other corporate expenses not allocated at the segment level were $27.1 million in Q1 of 2020 compared with $36.6 million in Q1 of 2019. Note that this decrease includes a year-over-year variant of $6.8 million related to the change in value of our deferred compensation liability, which was offset by the corresponding loss recorded as other income related to the decline in value of the assets used to fund that plan. Excluding this impact, the $2.7 million decrease in unallocated corporate costs was primarily attributable to lower bonus expense for our support personnel, a decrease in certain technology expenses that are now reflected as a component of segment operating margin, lower facilities expenses, and lower other general and administrative expenses, partially offset by an increase in salaries and related expenses for our support personnel.

Now turning to the balance sheet and cash flows, DSO came in at 62 days for the first quarter of 2020, consistent with the fourth quarter of 2019. Total debt includes the $448 million in senior bank debt and a $4 million promissory note for total debt of $452 million. We finished the quarter with cash of $151 million for net debt of $301 million. This was a $105 million increase compared to Q4 2019. The first quarter reflects the payment of our annual bonuses. Our leverage ratio is defined in our senior bank agreement as approximately 3.5x trailing 12-month adjusted EBITDA at the end of Q1 2020 compared to 1.6x trailing 12-month adjusted EBITDA as of December 31, 2019. The increase in our leverage ratio was driven by the increase in borrowings in the first quarter to enhance our cash position. Our net leverage ratio was 2.3x trailing 12-months EBITDA as of March 31, 2020 when the bank definition calculation is adjusted for cash on hand. This compares to 2.9x trailing 12-months EBITDA as of March 31, 2019 when calculating in the same manner.

Our immediate financing need is to score our operations during the COVID-19 pandemic, which has created significant volatility and uncertainty in the economy and unknown potential impacts in the credit markets. As such, and in abundance of caution, during the first quarter of 2020, we proactively took steps to maximize cash on hand, including but not limited to borrowing under our senior secured credit facility, reducing discretionary operating and capital expenditures, closely managing our receivables and collections, and thoughtfully managing our payables to vendors. Through April, we have not seen any material degradation in our cash collections, and cash on hand has increased throughout the month of April.

Our long-term financing need has, and continues to be, to fund the growth of our business. Our growth strategy is focused on strengthening the competitive advantages within our core businesses while also expanding our offerings into complementary capabilities for end markets. To fuel this growth, we'll need to continue to fund investments in areas such as new hires, acquisitions of complementary businesses, or other capital-related expenditures. During this period of uncertainty, we believe our internally-generated liquidity, together with our available cash and borrowing capacity, will be adequate to support our immediate financing needs and our long-term growth strategy.

Cash flow used in operations in the first quarter of 2020 was $56 million, and we used $3.9 million of our cash to invest in capital expenditures, inclusive of internally-developed software costs, resulting in free cash flow of negative $60 million.

Due to the uncertainties regarding the duration of the impact of the COVID-19 pandemic, we are withdrawing our previously-announced full-year 2020 guidance. As Jim mentioned, we hope to be in a position to reinstate annual guidance when we announce our second quarter results. Driven by the impacts of the pandemic, the uncertainties in the global economy are significant and limit our visibility in the short-term. As I described a few moments ago, we will continue to manage our financial position to sustain and build our business for the long-term. We started the year with a strong balance sheet and overall financial position that we believe, coupled with expense management practices we have put in place, position us well as we, like other businesses, weather this ongoing storm.

Even with the current uncertainty we face, I want to reiterate our commitment to our long-term financial strategy. We remain focused on positioning Huron to achieve our sustainable, organic growth strategy and expanding margins over time. Like Jim, I too want to thank our incredibly talented team for their nimbleness, creativity, and dedication to our clients, which has allowed us to continue to act as trusted advisors and serve our clients during this time.

Now let me share a few final thoughts before we open the call to questions. 2019 was a strong year for Huron across all facets of our business, including financially. That momentum carried into the first quarter of 2020 as our clients' challenges continued to drive demand for our business. As Jim mentioned, because of COVID-19 and the broader economic environment, our clients' challenges will likely only be exasperated. Driven by their passion for serving and making a difference for our clients and our business, our teams are collaborating and using this time to creatively find ways to serve our clients in our new normal environment, develop new offerings, and accelerate our strategy. Because of our transformational offerings and the disruption taking place in our end markets, we believe that we are well-positioned to take advantage of the strong demand we anticipate as the economy stabilizes.

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 from Suntrust.

Jasper Bibb

This is Jasper Bibb on for Tobey. I was hoping you could speak to how the stimulus measures put in place for hospitals and universities may be shaping customer decision-making at this stage.

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

This is Jim. I think at this point, the amount is a little bit uncertain right now. The financial deterioration's been pretty significant, and I think most of our clients feel that they're all expecting something to come, but I don't think any of them are expecting it to cover the collective set of financial deficit that's been occurring over the last couple months or so.

So, I think they're all looking at it as something that's going to be necessary, and it may actually come in waves over time. But I think nobody is viewing it as being... going to really be sufficient to help fill the gap that's developed. So that's one of the reasons why we view the chance of our demand for our services being relatively strong as this evolves, is that they're going to have to make some tough decisions because their financial situation's just not going to be there. So, there clearly will be some federal funding. How much there is remains uncertain. But I think what isn't uncertain is the fact that there's still going to be a negative hole at the end, and they're trying to prepare for that.

Jasper Bibb

I wanted to ask about healthcare demand. And while there might be quite a bit of opportunity with hospitals on the other side of this, are you anticipating challenges at assisted living providers or larger urgent care networks to be an area of increased opportunity, as well?

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

Well, over the last 3 or 4 years, we've increased our healthcare practice as complete -- has increased its scope and spectrum across a broader array of the healthcare arena. The reality is still a vast majority of our work is done in hospitals and health systems, but the hospitals and health systems are changing a lot in and of themselves, so there will be some opportunities for other areas. But I don't think -- I think still, at least for the foreseeable future, the majority of our work will still be with hospitals and health systems.

As they get into new businesses, some of them even retail, certainly telemedicine, there's all kinds of businesses they'll be getting into. We'll certainly see some expansion of our scope in that area. In addition, we're also doing work for non-hospitals and health systems, so that could be private equity, that could be physician-led groups. There's all kinds of new entries into the market. And so, we're increasingly working with some of those. But at this stage, still a majority of our work will be with healthcare, with the hospitals and health systems.

Jasper Bibb

Last one from me. With respect to the Adventist relationship, have you seen any impact there?

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

No. No. That work is ongoing, and it's going strong. No, we have not seen any immediate impact there.

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

Yes. The managed services contract continues to proceed very well. It's been a real area of strength during the quarter, so that's -- everything is going well as far as the contract that we have right now.

Operator

Our next question comes from Bill Sutherland from The Benchmark Company.

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

I'm interested in what your visibility is right now as far as the professional ranks. And I know you want to keep that in place to the degree you can, but are you considering furloughs? And how are you thinking about the normal hiring cadence with the freshman recruiting in the third quarter?

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

Hey, Bill, I'll take that one. This is Mark. Let me start, and then I'll have John continue on. So, we're fortunate in that we've had a very healthy backlog that has come into the year as we continue to add to that. And, look, I think through the second quarter, we've given some idea of what our parameters we're looking through there. And then, I think we're in a place where we just have to see how things are going to shake out. We're optimistic of what that might be, and our strong intention is to try to do everything we can to keep our team together, just like we said on the call, because we feel like it's just a matter of when, not if, additional demand is going to come into play.

So, I think it's too early to say, but I would say, right now, things like furloughs are not something that we're contemplating, just to be clear. We don't feel like we're at that place, based on our liquidity and our expense management, that we're in pretty good shape. And John or Jim, anything you'd add to that?

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

It's John. I'll just add, no, our viewpoint, and Jim touched on it in the prepared remarks, our viewpoint is that we're going to be quite busy on the other end of this. There's a lot of the challenges our clients are facing. We think we're going to be well-positioned to help them with those challenges. And so, we want to maintain that capacity to serve that need once things begin to normalize.

I will say that, in terms of new hiring, that's an area where we're being more conservative right now, for the most part. To the extent that we have needs in different parts of the business, we're using existing team members. And that's where we've had some really great collaboration, quite frankly, between the teams, where we've been sharing resources amongst the team to serve needs as opposed to incremental hiring at this point, just given the lack of visibility from a revenue perspective created by the current uncertainty.

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

So as part of the impairment of the strategy in life science groups, were they downsized?

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

No. No.

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

So as I think about you broad-brush, kind of look directionally at revenue, appreciate at least a stab at it. When you think about the challenges of utilization and the greater turnover, I assume, projects; should we think about EBITDA probably more impacted than the 10% to 15% that you're taking a first stab at for revenue?

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

So, Bill, that 10% to 15%, just to clarify what that is, as we look at the second quarter and we compare our expectations for the second quarter of 2020 to our actual revenue for 2019. That's where we expect to see a 10% to 15% decline in the second quarter. As we noted in some of the supplemental material that we put out, our expectation is that we'll be able to offset about half of that revenue shortfall with various cost-savings items.

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

I'm sorry, I didn't get the supplemental stuff opened. I went to the site, but -- okay, I'll go find that. That's it for me. Thanks, everybody.

Operator

Our next question comes from Kevin Steinke from Barrington Research.

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

Just wondering if, in the short-term, or even over the next couple quarters here, there's been any ways that you've been able to help your healthcare clients with actual response and planning for their response to the COVID pandemic.

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

Jim, do you want to take it, or I can elaborate on some of the things we're doing?

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

Go ahead, Mark.

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

Kevin, I think one of the things, we alluded to this, was just the nimbleness of our team in a very short period of time, responding to what really rapidly became a very broad crisis across all of our healthcare clients. There were those clients that actually had a true surge in COVID patients, and there were others that were dealing with cancellation of elective procedures, which put a lot of pressure on their margins in the short-term.

Kind of irrespective of what the variation in the geography has been, there's been a very broad financial impact. And we have really marshalled, I would say, collectively every resource we have to help in a variety of different fashions, one from what and how do we access the federal funds in the CARES Act to be able to compensate for some of the short-term. We have a gateway that's helping them, and basically has helped us with some engagements there. We have a team that, with Medically Home, is setting up virtual hospital beds, which essentially takes care outside the 4 walls of the hospital in a very rapid fashion. It's helping set up additional capacity to now even -- to COVID-19 playbook. How do you manage your way through this financially, operationally, et cetera?

And that's all leading to now how do you actually reengage as this starts to get back to some level of normality? You're starting to see some places schedule elective surgeries again. But there are a tremendous amount of questions in terms of the business model that are relevant for all of our people, how do you bring your workforce back, when do you do that, do you bring them all at the same time in different roles? What's the role of tele-health and telemedicine? So, these are the kinds of things that just have created a very dynamic and attractive environment for the healthcare practice.

And Jim, I know you've spoken to a lot of leaders, as well. Maybe you can add some color.

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

Yes. I think the only thing I would add to that would be twofold. Mark talked about the telemedicine thing. I think one of the issues is that there's no question that telemedicine is going to be an important factor as things move on. The question is, like, what does that mean? That has a very different view in terms of the kind of facilities that'll be needed. It's likely it'll create different economics for the hospitals. There may be different compensation approaches for both clinicians, for nurses, and for physicians. So, there's just a lot of uncertainty.

So, it's nice when people talk about the fact that telemedicine's going to kind of surge ahead and do more and more now, but the reality is that's a pretty uncertain future as well. So, we're beginning to help some of the clients begin to think through what the economics are and the labor structure is going to look like, the compensation structure's going to look like. So, there's just a lot of things that are happening very quickly. So that was one. Mark mentioned the margin pressures, and that's probably the more immediate area that we're beginning to help with as they anticipate a pretty significant deficit that was not anticipated 2 and 3 months ago.

And the last thing I'll say was just I think this has brought to light the fact that there needs to be a fair amount of kind of asset rationalization here. If people are going to be less inclined to go into the hospital for the foreseeable future for a variety of reasons, what does that mean? They aren't necessarily going to even go into the clinics that have recently been built up. So, all this kind of creates a very different environment. We're helping a lot of our clients think through both the strategic and operational, and ultimately the financial issues that are associated with all this transition.

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

And Kevin, let me just throw a couple more in there, because I think they're really relevant. I mean, even in New York, where labs are basically under just complete overflow, helping them through how they work in that environment to address the capacity constraints. Our ES&A team, our Innosight team, every single one of our practices who touches a healthcare client in their own respective way has come together to help respond in that way. So, like, in our ES&A practice, they've set up Salesforce contact centers, literally in a couple of days, in a very rapid fashion. So, there's been just an extraordinary response by the company and with our vendor partners, as well.

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

That's helpful, thanks. I was able to pull up the presentation you have on your website here, and the scenarios, base case, optimistic, pessimistic. And I was curious about your statement that you would hope to reinstate annual guidance following second quarter results. So, is that kind of the base case scenario? And what would lead you to make that statement that you think you would be able to reinstate guidance at that point?

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

Let me start, and John, I'm sure you'll add something in a second. I guess there's a couple comments. Obviously, things have evolved very quickly over the last month and a half, or 2 months. And the reason we laid out the 3 scenarios is because that's really kind of the way that we're looking at how we're going to position our company and prepare for it in different scenarios.

I think by the end of July, when we would be offering our next release of second quarter earnings, what we should have, there'll be 5 months left in the year at that stage. And I think, good or bad, we should have a clearer picture. Maybe not clear, but a clearer picture at that stage that should be able to help let us provide some additional guidance at that stage.

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

And I would just add, Kevin, probably whatever the scenario is at that point in time, obviously those scenarios were just to give insight into the way we're looking at different ways it could unfold. One thing for certain is that actual reality will probably be something in between any of those. And I think, no matter how it does unfold, I think our expectation, like Jim said, given the amount of time that'll be left in the year at that point, is that we'll be able to give guidance in the July call.

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

And then, I was curious that we didn't see sequential increase in SG&A expenses in the first quarter versus the fourth quarter, given some of the fringe expenses you talked about. And is that a reflection of some cost reductions already being implemented? Or what was going on there?

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

That's right, Kevin. I'd say it's a combination of some of the reductions that, just as we kind of cycled into a new budget year, even absent the COVID-19 situation, there were certain areas where we had made some cuts heading into the year. And then, as the quarter progressed, and you started to see some of the unknowns and uncertainty that was created by COVID-19, we paused on certain discretionary spending items at that point until we could get to a spot where we had better visibility. So, I'd say it's a little bit of what we had expected heading into the year, just as we try to keep our SG&A expenses tight so that we can invest back in the businesses. But then, as the quarter did progress, there was some additional belt-tightening, just given the visibility issues created by the COVID-19 situation.

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

I'll leave it at that for now. Thank you.

Operator

Our next question comes from Andrew Nicholas from William Blair.

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

I was hoping you could talk a little bit about the project work that you previously expected in the second quarter. And if I'm thinking about kind of the shortfall maybe versus your previous expectations, how much of that would you characterize is a delay or a slowdown versus project work being canceled altogether?

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

Andrew, it's John. I can start. I would say, every quarter, the way to think about it is we never enter a quarter with 100% of the backlog already sold for the quarter, so there's always some expectation that there's going to be new business development, pipeline conversion, to hit the numbers for a quarter. And so, I think what the decrease reflects is a continued burn of the backlog that we have, just given how seamless the transition to work remote has been, but a slowdown of that pipeline conversion.

And to specifically answer your question, I think the majority of situations we've seen at this point have been delays or deferrals. If you think about the environment in healthcare space, there's still a lot of projects that were in the pipeline in the first quarter that our expectation is, eventually, the clients are going to have to circle back and do, or that they're going to want to circle back and do, because they're really strategically important to the clients. But if you think about the situation in March and April, our clients needed to shift their focus to emergency response management.

So, in many of those cases, they deferred some of those projects. In some cases, they were fairly well defined about when those might pop back up at a later time. In other cases, it's more TBD, but our expectation is that -- is actually they're going to come back around. What we don't have visibility to at this point is exactly what that time is going to be. And a lot of that will be driven by things in the macro environment that, at this point, it's just too early to call exactly how things will pan out.

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

This is Jim. I would just add to that a couple things. We've been talking internally. If we look at the financial and operational, strategic and technology issues that were facing our clients before all this happened, none of them have gotten better. Most of them have gotten worse.

And so, I agree with John's comment, and that is there have been some deferrals. The deferrals are there for a variety of reasons, one of which is a lot of our clients aren't working onsite, either. And so, it's maybe a little bit hard for them to pull together to do some of this work. And other times, they just said, look, it's just not the time to start a bigger project. So, we really haven't seen that many cancellations, but we have seen some deferrals.

And I think our sense is that even now, toward the end of April, as some of our clients are beginning to think about the re-entry into the market, I think some of these projects I think will come back to life. So that's why we made this comment that I think what we can't predict is how long this kind of period of slowdown will last. But we think, once it begins to pick back up, that's when we think the demand's going to come up. So, we feel good about where we're positioned right now, and I think we just have to wait out and see how long the urgency is.

Particularly the hospitals in some respects had it worse in probably March and April, and maybe getting back to a little bit more normal in May and June. Universities kind of have the reverse situation, where they were okay for a little while, but now they're having to face these issues about whether they want to have -- they probably gave up on their summer programs and now are trying to wonder whether they're going to have something in the fall. So, there's just a lot of uncertainty at our clients, and some of them are reluctant to take on bigger projects until they can go get a little bit more clarity of their own operating environment.

In the interim, we are still getting -- we've gotten new work in every one of our businesses every week throughout this whole process, so things are still moving. They're just moving at a slightly slower pace, and the visibility that we have into what would normally be a building backlog has just come down a little bit while we wait for that period to go by.

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

And then, how should we think about performance-based fees, or contingent fees in this environment, thinking about kind of revenue cycle business as one aspect to that, and how declining patient volumes might impact that business, if at all, in the next couple quarters?

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

I would say, Andrew, that I think coming out of this, if you think of our healthcare clients being under a significant amount of financial distress and needing performance improvement projects to help close budgetary gaps, things of that nature, oftentimes performance-based fees end up being a component of that, because that really does a nice job of kind of matching the outcome with the amount that the clients pay. So, I think that, coming out of it, that will probably be one of the types of contracts that you'll see us have within our Performance Improvement area, and that may become of increasing importance.

In the meantime, that is potentially another timing factor for the jobs we already have, is a lot of those performance-based fee contracts include measurement of certain objectives. And when you've had this dramatic shift over the past couple of months to less elective-type procedures, less elective surgeries and more focus on immediate COVID-19 response, that is something that could impact temporarily, from a timing perspective, some of those metrics that you use to measure performance-based fee projects. So, in some cases, that may elongate the amount of time it takes to reach the original objectives. But I'd say, coming out of it, we'll probably see more contracts that have that element to it as our clients look to shore up financial issues coming out of the crisis.

Operator

Our next question comes from Kevin Steinke from Barrington Research.

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

Just a couple of follow-ups here. Do you have any sense as to how that 10% to 15% decline that you talked about in the second quarter would break down by segment?

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

Kevin, it's John. I'd say that we'll probably see the majority of that shortfall coming from the Healthcare segment. I think that's the segment that's kind of been most acutely impacted from a new business development perspective in the near-term here related to the COVID-19 crisis and our clients' need to focus on that response. So, I think that's where we'll see the majority of it.

From a Business Advisory perspective, you may see it there, too, as we've talked about the strategy, businesses in the near-term here have been impacted by some of the disruption that's been created by COVID-19. And I'd say probably from an Education perspective, that's going to be the area where, I would say in the second quarter, you'll probably see the least impact.

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

Okay, thank you. And as this one last one, you talked about how the transition to online delivery of education, of classes has been spotty at universities and that that might be kind of the delivery method even going into the next school year. Is there any way you can assist your clients with improving their ability to provide an online education platform?

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

Kevin, this is Jim. There is, but it's not an easy thing to do. I think there was an initial sense that you could just kind of turn this on and do it versus YouTube or something else. And some schools and some parts of schools have done this, been doing it for a while, and are actually quite good at it, and others that are just having to do it right now either don't have the technology or just don't have -- you can't just take what you would normally do in class and put it online. So, it's a much more difficult process than I think most people recognize. And to really do good and to get it good to the point where the quality of the delivery of curriculum is consistent with what the university's brand and consistent with the students' expectations for the price that they're paying, there's a pretty big gap right there.

I think there are firms that help with that online program, so we're not necessarily likely to get into that space. But we will help them sort out strategically how best to do it. I'll give you one example where we are beginning to work with some of our clients, is that some of those schools, if you can get it right, you can actually leverage your brand and use it as a revenue generator in ways that you haven't done before to really kind of expand your scope beyond just the people that you would normally have on campus. So that's one area where our clients are looking for opportunities, but you've got to get the quality of the product reliable and good first. And I think most people would admit that it's not quite there yet.

Operator

Thank you. Seeing that there are no more questions, I'd like to turn the call back to Mr. Roth for closing remarks.

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

Well, thank you for spending time with us this afternoon. We look forward to speaking with you again in July when we announce our second quarter results. Have a good evening.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
