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HURN - Q2 2019 Huron Consulting Group Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Huron Consulting Group's webcast to discuss financial results for the second quarter 2019. (Operator Instructions) As a reminder, this conference call is being recorded. Before we begin, I would like to point all of you to the disclosure at the end of the company's news release for information about any forward-looking statements that may be made or discussed on this call.

The news release is posted on Huron's website. Please review that information, along with the filings with the SEC, for disclosure of factors that may impact subjects discussed in the afternoon's webcast.

The company will be discussing one or more non-GAAP financial measures. Please look at the earnings release on the Huron website for all the disclosures required by the SEC, including reconciliation to the most comparable GAAP numbers. And now I would like to turn the call over to Jim Roth, Chief Executive Officer of Huron Consulting Group. Mr. Roth, please go ahead.

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

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

Consistent with recent quarters, we continue to drive solid organic growth across all of our operating segments. Huron delivered 12% organic revenue growth in the second quarter, led by strong performance in our Healthcare and Education segments. As reflected in our updated annual guidance, we remain encouraged about our prospects for continued growth in 2019.

I will now provide a brief overview of the performance for each segment and then John will add color to the financials.

Let me begin with Healthcare. During the second quarter, Healthcare segment revenues grew 11% compared to the prior year quarter. The quarter-over-quarter growth was primarily attributable to strong demand in our performance improvement solution. Our health system and academic health center clients facing even more challenging environment than existed in recent years.

The competitive environment for our clients is also more diverse and intense, combined with increasing pressure on reimbursements, the traditional business model in the provider market remains under threat, necessitating the need for new sources of revenue.

Our Healthcare business is well positioned to support our clients as they shape their future strategies, evolve their business models, and optimize their operations to address the ongoing transitions in the market. Our strategy centers around the development of innovative service offerings that, when combined with our core competencies and performance improvement, we believe, will further position this business for sustainable organic growth over time and continue to strengthen our competitive advantage.

The Business Advisory segment continued to perform well during the quarter, growing 8% organically over Q2 2018. Growth in the quarter was driven by the ES&A, Innosight and Life Sciences businesses. We expect that Business Advisory segment will continue with its solid growth trajectory. To address the rapidly evolving needs of our clients, we are developing new services that cross practice boundaries to grow beyond our traditional offerings in the segment.

For example, in our ES&A business, several of the technology-related areas we are focused on include: Transforming the office of the CFO, to meet the needs of a digital world; shifting the finance function to become a high-value strategic partner within their institution; enabling institutions to make better, faster decisions with real-time analytics; and helping organizations better manage and leverage their digital investments while minimizing their total cost of ownership.

We are increasing collaboration across our 3 operating segments to achieve our strategy of becoming a more integrated operating company. Through the first 6 months of 2019, the Business Advisory segment generated approximately 33% of its total revenues in the Healthcare and Education industries while continuing to expand in key vertical industries, such as Financial Services, Life Sciences, Energy, Oil & Gas and Utilities. We will continue to innovate with new offerings to address our clients' needs and drive organic growth for Huron.

Turning now to Education. Education segment revenues in Q2 2019 grew 17% over the same period in 2018. The strong quarter-over-quarter growth was led primarily by our cloud ERP and strategy and operations solutions. While I will not repeat the commentary provided in past quarters regarding the strength of demand in the market, suffice it to say that cost and quality pressures remain a primary concern for our higher education clients. Similar to the story in Healthcare, our higher education clients face competitive threats from multiple fronts. New technologies, a demographic profile that in some geographies is increasingly challenging, and trends reflecting declines in net tuition, all contribute to a complex array of issues that threaten historical business model. Also similar to Healthcare, we believe the diversity of our service offerings and the depth of our experience position us well for future growth in this business.

Finally, let me turn to our outlook for the year. As our press release indicates, we are increasing our annual revenue guidance to $830 million to $860 million and maintaining our adjusted EBITDA guidance in a range of 12% to 12.5% of revenues.

We now expect an increase in adjusted diluted earnings per share in a range of 15% to 25% over 2018.

We are -- we raised our revenue guidance to reflect the strong second quarter performance as well as the current and anticipated demand for our services across all segments. We continue to believe our business will generate mid- to upper single-digit growth over the medium term. We are pleased with our positioning in the market across all of our segments and we believe it is a market that will enable healthy organic growth for the foreseeable future.

We also raised our adjusted earnings per share guidance. We believe that our strategy on driving operational efficiency -- efficiencies and leveraging our G&A will continue to drive increased profitability over time.

We will continue to invest in our business and remain committed to driving long-term shareholder value through a sustainable organic growth strategy.

Finally, I would like to thank the entire Huron team for fully embracing our strategy and bringing our vision to life. Because of their hard work and dedication to our clients and our company, we are strengthening our competitive advantage by developing new innovative offerings more quickly than ever before, evolving to a more integrated operating company to be more responsive as clients confront the challenges of their own rapidly changing environments and further fostering the values-driven collaborative culture that has made Huron the premier transformation partner to our clients.

We frequently mention the pace of change that our clients are facing and in many respects, the professional services industry is facing a similar transformation. I'm excited about the way our very talented team is responding to these changes, adapting to emerging technologies, being anticipatory of our clients' evolving needs and collaborating to bring the best solutions from across Huron to market for our clients. I'm proud of what we've accomplished and even more excited about the opportunities that lie ahead.

Now let me turn it over to John for a more detailed discussion of our financials. 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, 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 second quarter of 2019 were $220.8 million, up 11.7% from $197.5 million in the same quarter of 2018. The increase in revenues in the quarter was driven by solid organic growth across all 3 operating segments.

Net income was $10.6 million or $0.47 per diluted share in the second quarter of 2019 compared to $5.9 million or $0.27 per diluted share in the same quarter in 2018.

Our effective income tax rate in the second quarter of 2019 was 24.8% compared to 30.4% a year ago. Our effective tax rate for Q2 of 2019 was more favorable than the statutory rate, inclusive of state income taxes, primarily due to nontaxable gains on investments used to fund our deferred compensation plan and federal tax credits, partially offset by nondeductible business expenses.

Adjusted EBITDA was $29.2 million in Q2 2019, or 13.2% of revenues compared to $24.7 million in Q2 2018, or 12.5% of revenues.

Adjusted non-GAAP net income was $17.1 million or $0.76 per diluted share in the second quarter of 2019 compared to $12.8 million or $0.58 per diluted share in the same period of 2018.

Now, I'll make a few comments about the performance of each of our operating segments. The Healthcare segment generated 46% of total company revenues during the second quarter of 2019. The segment posted revenues of $101.9 million for the second quarter of 2019, up $10.4 million or 11.4% from the second quarter of 2018. The increase in revenue was primarily driven by strong demand in our performance improvement solution. Performance-based fees in Q2 2019 were $22 million compared to $9.2 million in the same quarter last year.

Our full year expectation for the range of performance-based fees is now $60 million to $70 million.

As a reminder, performance-based fees for our Healthcare engagements are recognized as the services are provided to clients under the accounting rules of ASC 606, which we adopted at the beginning of 2018. Compared to our policy under the prior rules where continued fees were recognized upon client sign-off, the new rules have the effect of better matching revenue recognition to the period where we delivered our efforts to our clients and incurred the corresponding cost of delivery.

Under the new rules and given the nature of our current engagements, we generally expect there to be less volatility from performance-based fee arrangements in our Healthcare segment, both in terms of revenue timing and margin impact.

Operating income margin for Healthcare was 32.7% for Q2 2019 compared to 29.6% for the same quarter in 2018. The year-over-year increase in margin was primarily due to revenue growth that outpaced expenses and a slight decrease in labor expense. We now expect Healthcare segment operating margins to be in the 30% to 32% range for full year 2019.

The Business Advisory segment generated 28% of total company revenue starting in the second quarter of 2019. The segment posted revenues of $62.3 million in Q2 2019, up $4.6 million or 7.9% from the second quarter of 2018. The increase in revenue during the first quarter was driven by the ES&A, Innosight and Life Sciences businesses.

The operating income margin for the Business Advisory segment was 18.4% for Q2 2019 compared to 24.6% for the same quarter in 2018. The decrease in operating margin was primarily attributable to a decrease in performance-based fees in the legacy Business Advisory practice which were $0.5 million in Q2 2019 and $2.3 million in Q2 2018. The decrease in margin was also due to an increase in performance bonus and share-based compensation expense for our revenue-generating professionals as a percentage of revenues.

We now expect the Business Advisory segment operating margins to be in the 20% to 22% range for full year 2019.

The Education segment generated 26% of total company revenues during the second quarter of 2019. Segment posted record revenues of $56.5 million in Q2 2019, up $8.2 million or 17% from the second quarter of 2018. The increase in revenue was primarily driven by our cloud ERP, strategy and operations and research solutions.

The operating income margin for Education was 28.7% for Q2 2019 compared to 23.3% for the same quarter in 2018, driven by revenue growth that outpaced expenses. We continue to expect Education segment operating margins to be in the 24% to 26% range for full year 2019.

Other corporate expenses, not allocated at the segment level, were $36.5 million in Q2 2019 compared with $31.2 million in Q2 2018. The Q2 2019 total includes $2.1 million of expense related to third-party professional fees incurred in connection with a potential acquisition transaction that ultimately do not consummate $800,000 in expense related to the increase in liabilities under our deferred compensation plan, which is fully offset by the gain in corresponding plan assets reported as other income; $600,000 related to expenses incurred by the segments in 2018 that are now managed at the corporate level in order to drive enterprise-wide savings and an increase in salaries and related expenses including share-based compensation expense for our support personnel.

Now turning to the balance sheet and cash flows. DSO came in at 67 days for the second quarter of 2019 compared to 65 days for the first quarter of 2019. The increase in DSO primarily reflects the impact of increased WIP on certain Healthcare engagements where the contractual scheduled billings and revenue recognized through June 30 will occur throughout the remainder of the year. We expect DSO to normalize back to approximately 60 days by the end of 2019.

Total debt includes the $250 million face value of convertible notes, $56 million in senior bank debt, and a $4 million promissory note for total debt of $310 million. We finished the quarter with cash of $9.2 million for net debt of $301 million. This was a $22 million decrease compared to Q1 2019. Our leverage ratio as defined in our senior bank agreement, was 2.6x trailing 12-month adjusted EBITDA at the end of Q2 2019 compared to 3x trailing 12-month adjusted EBITDA at the end -- as of March 31, 2019.

We continue to anticipate our leverage ratio to decrease to approximately 2x by the end of 2019.

As stated in our previous calls, our intent is to use capacity on our revolving credit facility to refinance our convertible notes when they become due in the fourth quarter of 2019.

Cash flow generated from operations in the second quarter of 2019 was $32.1 million and we used $6.4 million of our cash to invest in capital expenditures, inclusive of internally developed software costs, resulting in free cash flow of $25.7 million.

We paid $10 million in earn-out payments during the quarter, of which $5.3 million is reflected as a component of cash from operations. And absent these payments, our cash flow from operations in the quarter would've increased by that amount. We do not expect any additional earn-out payments in 2019. We expect cash flows from operations for the year to be in a range of $100 million to $110 million.

We expect capital expenditures for the year, inclusive of internally developed software costs, to be approximately $18 million to $22 million and free cash flows for the year to be in the range of $80 million to $90 million, net of cash taxes and interest, and excluding noncash stock compensation.

As Jim noted, we are raising our full year 2019 revenue guidance to $830 million to $860 million.

In addition, we are reaffirming our full year adjusted EBITDA guidance to be in a range of 12.0% to 12.5% of revenues and now anticipate an increase in full year adjusted non-GAAP diluted earnings per share in a range of 15% to 25% over full year 2018.

Finally, we continue to expect our full year effective tax rate to be approximately 30%.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Tim McHugh with William Blair & Company.

Timothy John McHugh - *William Blair & Company L.L.C., Research Division - Former Partner & Global Services Analyst*

First one just asking on the performance improvement comment -- commentary about performance improvement work in Healthcare. Can you compare to what you saw in the past? I guess success fees improved quite a bit this quarter. Are you still seeing the smaller projects? Is it -- are you seeing a return at all of these bigger projects? And I guess how would you compare the nature of the projects versus maybe what you saw a couple of years ago when this practice was last kind of firing on all cylinders?

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

Tim, it's John. As market demand for our services has strengthened, we have seen a modest increase in job size and in level of our follow-on work, however, not for the job -- very large job sizes that we saw in 2016 and prior. Our selling model and broad productivity across all of our MDs has created a pretty good dynamic balanced growth at this point. Our focus remains on driving deep relationships with our health system clients that over time will produce follow-on opportunities and the ability to serve them in many different ways as they improve performance and transform their business models. So this has been a key driver of our revenue growth over the past couple of years, and we expect that to continue to be what drives it in the future. So in general, the job sizes are modestly a little bit bigger. I would say it still goes back to what we've talked about in the past and which is our clients, it's really their preference from a risk-sharing perspective whether they prefer performance-based fees or whether they prefer fixed fees in that mix, that's a little bit hard for us to predict from quarter-to-quarter. But that's not really what's driving demand at this point. I'd say that's really kind of a customer preference.

Timothy John McHugh - *William Blair & Company L.L.C., Research Division - Former Partner & Global Services Analyst*

Okay. And then just my other question on the adjustment in the numbers for an acquisition that you didn't end up doing. The -- I think the prior thought was -- the focus was really on paying down debt, particularly in advance of the convertible kind of being refinanced. So has that approach changed? It seems like you must have been looking at a relatively good-sized asset for that level of kind of diligence spending.

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

Tim, we're not going to comment beyond the description that's included in our recent 10-Q on that particular item. I would say from a M&A focus, we continue to focus on driving growth in the course of the strategy that we laid out in 2017. All of our businesses have kind of refreshed our long-term strategic plan over the past couple of years, and they've identified areas where we believe we can drive growth in our core business as well as develop new offerings over the next several years.

So as our balance sheet strengthens, we expect that there will be some opportunities best served by strategic M&A, for example, (inaudible) where speed-to-market is a factor or there is an opportunity to bring in a group of talent that may be immediately accretive. But with that said, we expect the majority of our growth to be organic and based on the opportunities we see in the market for our teams.

Operator

And our next question comes from Tobey Sommer with SunTrust Robinson Humphrey Capital Markets.

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

I wanted to see if you could elaborate on your expectations for project sizes across the different businesses. In prior periods, I tend to recall that as growth picks up, the size of projects tends to increase as well and can be accompanied by better pricing.

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

Tobey, it's Mark. Let me add some commentary to that question. I think John described it well. I mean, the dynamic in Healthcare is always it starts with the clients' preference for risk and the sizes of the engagements have tended and this is true over the last couple of years, tended to start with a fairly focused area of scope. And typically what happens is when we're in the client and delivering and additional opportunities are identified to seeing a lot more follow-on work that's coming from there.

I think if I contrast in Education, the engagement sizes, I don't think there's been a lot of change candidly in terms of mix. I think the technology projects are of a size that we're normally seeing, and they vary in size depending on the clients' engagement. And in ES&A, as an example, I would say that's probably an area that we have seen a steady march going back 5 years to when we started the Blue Stone acquisition in 2013. And what we've really accomplished in that particular practice is to bring the multiple solutions that we have within ES&A. So whether it's now ERP, plus EPM, plus sales force plus BI and analytics, it gives us a much more compressive way to approach the clients' needs and that's translating into larger engagements within that practice. But I would say, in general, that's about the nature -- the changes of anything in terms of project sizes. I think the rest of the businesses have been pretty stable.

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

Okay. How would you characterize the company's ability to raise prices and accommodate wage inflation as well as the headcount growth that you are absorbing?

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

Let me take the pricing one and then I'll turn it to John on the headcount side. I think in general, pricing is always under pressure in the markets that we serve. Because inherently, the reason we're being brought in is that normally, there's some kind of pressure on profitability or margins. And so -- and generally, I would say that our ability to cover our wage increases with either productivity or other ways of doing it, as an example, mix of personnel engagements, leveraging a little bit differently in the delivery models, we've had a pretty good track record of being able to at least maintain the segment-level margins in a reasonable range. There's been some mix, of course, with technology being a little bit lower margin but that's more of a mix issue versus something that we're seeing degradation because of an increase in the cost factor.

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

Yes, I would just add, Tobey, we like -- probably everyone, it is a competitive job market right now. So there's no doubt about that. In -- as Mark alluded to, there's probably some markets where we're able to push through some of those increases based on the customer markets. But the reality is, there's other areas where it really puts the pressure on us to be more efficient. And I think we've instituted a number of initiatives across the business to kind of drive that efficiency. Mark touched on some of them. I'd highlight centralizing certain areas in centers of excellence where we can really perform it at a broader scale and a lower cost so you don't have those same activities happening out in silos on the project teams. So that allows us to deploy less hours in the projects, which helps offset some of that margin pressure that we might be seeing. So the point is, we're not immune to it but I think we've got enough leverage in our operations that we've been able to address it in those markets where we haven't been able to push it through.

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

Tobey, this is Jim. The only thing I would add to Mark and John's comments are that I think in industries where we tend to have a strong industry presence, like Healthcare and Education, it's slightly easier to get a little bit of pricing benefit there because -- just because of the depth of the experience that we have in those industries. But I think there is -- it is a competitive labor market. And I think we're not really anticipating our -- we're not anticipating the pricing piece of this to be the major part of our revenue growth in the future. I think this just could be -- it's going to be lot less around the net fee per hour and a lot more about just broadening the sales in our various industries.

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

Okay. Last question for me. Can you comment about the prospects for margin expansion and what goals you may have, medium to long term? Do they -- it does look like with this kind of growth, last year's EBITDA margin is likely at least sort of a near-term bottom.

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

Tobey, this is John. I can start off. Yes. It ties a little bit into the comments from the last question around some of the things we're doing around operational efficiency. I think we also feel good about the corporate infrastructure that we built. And we feel like that's very flexible as the company goes. So I'd say one lever that we have is we drive the organic growth that we've seen last year and now this year and drive that into the future. We think there's an opportunity to grow the top line faster than our SG&A expense pool, which should create some natural leverage. So in terms of quantifying that, I think a safe way to look at it is if you do the math just on that leverage and assume steady margins at the practice level, I think you get to an answer that you've got 50 basis points of improvement that you can envision if we're able to keep this level of growth going. We're not shooting for just that. We're shooting for between efficiencies and some of the things we're doing to innovate new offerings with above-average margin opportunities. We hope to do better than that. But I think as far as just kind of a safe view of how to look over the next few years, medium term, that 50 basis points a year is a good way to look at it. Will we ever get back to where we were before 2015 with margins in the upper teens? Again, we're working towards doing things like that, but that's probably a little more aspirational at this point. I think a steady progress of 50 basis points a year, kind of getting towards the mid-teens is a pretty realistic way of looking at it.

Operator

And our next question comes from Kevin Steinke with Barrington Research & Associates.

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

So you talked about performance improvement, primarily driving growth in Healthcare. Can you just maybe comment on the other areas of the Healthcare segment, Studer or Technology solutions, how are they doing?

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

Yes, Kevin, it's Mark. Let me start with Studer. So I think we've all recognized the last couple of years Studer has had a little bit more pressure on their top line. This year, again I would say that continues in a low range. So year-on-year, a little bit of pressure in the low-single-digit percentage-wise. But I would say, we have actively been, for the last couple of years, in the process of really redefining their offerings in a way that really pulls together collaborative opportunities with the performance improvement practice and really making them more flexible with respect to expanding the client base that really they're able to serve in a much more flexible way as opposed to multi-year set contract-type engagement. So I think we feel good about Studer Group and its direction. There's always more work to do, but it's all moving in the right direction. With respect to the technology area, this is a business just to remind you that we started with Vonlay and then we bought HSM. We brought them together and then, in '18 -- actually in '17, we started to see really strong growth, strong double digit in '18 as well as '19. And so that business, we think there's a lot of runway ahead of it. It is another example of where some of the project sizes are going up a little bit just because as we're getting bigger, we're attracting opportunities to deliver in a little bit bigger client setting. And I think that's going to continue to be the case. So we feel very good about that. And just to remind you, so even within Healthcare, we have that particular business in EHR, but we also do Healthcare ERP in other parts of our business. Our ES&A practice works in Healthcare as well, in sales force and other solutions. So we actually have a pretty broad Healthcare technology presence.

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

Okay. Got it. And at the outset of the year, you laid out some segment-level growth expectations. I was just wondering given the raised guidance, if you want to comment on what you may be expecting in terms of growth from the 3 segments now for the full year?

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

Kevin, it's John. Fitting into the new updated revenue guidance, we're now expecting Healthcare to be up in the mid to upper single-digit range for the year. We're expecting Education, once again, be in the double-digit range, and we're expecting Business Advisory to be mid-single-digit increase over last year.

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

Okay. Great. That's helpful. And you talked about, over the long term, you can grow top line faster than corporate SG&A. I guess it hasn't necessarily happened in the first half of the year. I think there's a number of onetime items in there, I believe, that caused that perhaps. But should we kind of assume that we start to get more leverage on SG&A in the second half? Or what's the right way to think about that?

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

That is the right way to think about it, Kevin. We -- in the prepared remarks, we called out a number of those areas that were incremental during the second quarter that we don't expect to recur in the back half of the year. We also -- sometimes, we talk about more during the first quarter call, we had -- fringes tend to be much higher in the first quarter than they are in the back half of the year. We also had a number of practice type meetings to kick off the year. We had a smaller one of those in the second quarter as well. So there's some onetime -- not onetime but some seasonal, is the better way to say it, expenses like that, that happened in the first half of the year that we don't expect to repeat in the second half of the year.

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

Okay. Great. And then if you could just touch on the Healthcare segment margin expectation went up a little bit. Business Advisory expectation went down a little bit, it kind of comes out all the same in the consolidated guidance but any comment on why the modest changes to those 2 segment margin outlooks?

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

I think from Healthcare perspective, it's based on the strength we've seen now during the first 6 months of the year. We talked about in earlier calls that we saw better pricing throughout the year that's really come through in the first half, and we expect that to continue into the back half. And from a demand perspective and a pipeline perspective, we're excited about the opportunities that we see. We're excited that there -- it's a balanced mix of opportunities too. So as we start to project out over the full year with the increased revenue guidance and taking into consideration some of those factors, we feel good about the ability to expand margins within Healthcare. From a Business Advisory segment perspective, I think it's a couple of things. I think, first, we had some contingent-based fees that didn't hit during the first half of the year that probably had a dampening effect on margins. We also had within our ES&A practice, some higher SG&A than what we initially anticipated, related to some larger multi-year projects, which we sold during the first half of the year and that we're going to be working on starting really in the back half of the year that created some extra expense during the first half and that's still going to be in there for the full year. And so I think, overall, those are probably the big drivers within Business Advisory and within Business Advisory, there's just a little bit of mix element too with ES&A practice, probably going in the fastest pace for the whole year and then blending in at the lowest margin mix.

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

Okay, got it. And then lastly, just -- how should we think about interest expense going forward kind of with the pending retirement of the convertible debt?

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

So you -- from an adjusted EPS perspective, starting in the fourth quarter, you will see higher interest expense from an adjusted perspective because we currently adjust out the OID discount on the convertible, original issuance discount on the convertible notes. So once those borrowings transition from what's the 1.25% coupon on the convertible notes to the revolver that will increase interest just because of the borrowings. As we start to look out towards the next year, yes, I think the current rate environment appears to be -- the revolver, the majority of it is floating versus fixed. So there appears to be some opportunity there for the floating rate to go down. And with the strong free cash flow, we expect to have in the back half of this year plus next year, we expect to be able to reduce our borrowings level and reduce interest expense correspondingly. But there will be a little bit of an adjusted EPS headwind when we transition from the convertible notes to the revolver that, of course, is all reflected in our guidance for 2019.

Operator

Those are the questions we have in the queue. I'm now going to turn the call back over to Mr. Roth for his final remarks.

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

Thanks for spending time with us this afternoon. We look forward to speaking with you again in October when we announce our third quarter results. Good evening.

Operator

That concludes today's conference call. Thank you, everyone, for your participation.