EDITED TRANSCRIPT
HURN - Q1 2014 Huron Consulting Group Inc. Earnings Conference Call

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Good afternoon ladies and gentlemen, and welcome to the Huron Consulting Group's webcast to discuss financial results for the first quarter 2014. At this time, all conference call lines are on a listen-only mode. Later, we will conduct our question-and-answer session for the conference-call participants and instructions will follow at that time. 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 James Roth, Chief Executive Officer and President of Huron Consulting Group. Mr. Roth, please go ahead.

James Roth - Huron Consulting Group Inc - President and CEO

Thank you. Good afternoon and welcome to Huron Consulting Group's first quarter 2014 earnings call.

With me today is Mark Hussey, our Chief Operating Officer and Chief Financial Officer. First quarter of 2014 was our second best quarter in the history of the Company, achieved primarily by better than expected results in our health care and legal segments. I will now provide some color on each of the segments and our core markets and then I will turn it over to Mark so he can walk you through the financials.

Huron Healthcare continued its recent stellar performance with Q1 results reflecting strong run rate revenue, as well as a sizeable contribution from our performance based projects. For the second quarter in a row, we generated a significant level of performance based fees. As a reminder, performance based fees only occur when the value we provide to our clients meets or exceeds their expectations.

Our recent strong results in the health care segment reflect our ability to successfully help our clients navigate some very complex strategic and operational environments. The market conditions for this segment remain vibrant and reflective of the ongoing challenges for hospitals related...
to reimbursement, the changing business model associated with movement towards managing for population health and continuing consolidations among hospitals aiming to achieve critical and operational efficiencies.

While our three primary health care businesses; revenue cycle, performance improvement and critical solutions continue to perform very well, the collaboration among those groups in the market is a major differentiator from a competitive perspective and an important attribute for our success.

This collaboration is most notable in our efforts at academic medical centers, most of which are challenged by the high cost associated with pursuing multiple missions in teaching, research and patient care.

We are also having substantial success in the middle market provider space, where financial pressures continue to increase. Collectively we are very well positioned for future growth in the health care segment.

Turning to our Huron Legal segment, we had our best revenue quarter ever, with solid performance in both the services and consulting practices. We had strong revenue among some of our financial services clients and we had additional new clients introduced to our global sales organization.

A key differentiator in the market for Huron Legal has been the scale of our e-discovery operations and our experience in working with large clients over intense periods, particularly in an environment where data security is becoming an increasingly critical factor to our large global clients, who are attracted by our ability to securely manage large amounts of sensitive information. As this market continues to grow in size and sophistication, we believe we are well positioned to serve the needs of the most complex clients.

The consulting practice within Huron Legal also had a strong quarter. Corporate law departments are facing many of the same pressures seen throughout large companies and the depth of our experience in creating cost efficiencies with law departments adds to the level of value that we can bring to our clients.

The one area of softness that we've seen in the past quarter was in the education and life sciences segment, also known as ELS. This segment is comprised of three individual practice areas; life sciences, technology and consulting. It is the latter, our education consulting practice that has seen some softness during the past several quarters and that softness continued in the first quarter of this year. I want to spend a few minutes providing some background here on each of the three practice areas in ELS, to provide a better sense of how we see things are evolving within the segment.

Our life sciences practice went through a period of low utilization in the last half of 2013, but productivity has picked up since the first of the year and is trending toward more normalized rates. With the early January addition of the Frankel Group, I believe that this practice area is on pace to meet our expectations for the year.

The Frankel Group, which serves many of our legacy pharma and medical device clients, has brought a complimentary set of offerings, including consulting on corporate and commercial strategies, R&D optimization and business development. We are very pleased with the talent that came to Huron from the Frankel Group and I'm excited about our ability to take new offerings into the rapidly evolving and increasingly competitive pharma industry.

The technology practice in ELS had a strong 2013 and continues to perform well in 2014. This part of the business has been the steadiest among the three ELS practices. We've had a series of recent wins that give us some comfort that this practice will also meet our expectations for the year.

The component of ELS practice most impacted by market changes has been the education consulting part of the business, which provides strategy, operations, finance and research services to research universities and academic medical centers. Of all the services that Huron provides, this is the one that I know the best, as it is where I spent most of my consulting career.

As I have mentioned on prior calls, the higher education industry is experiencing significant disruptive and competitive pressures. Even some of the most prestigious colleges and universities are feeling the need to make substantive strategic and financial decisions. Unlike the hospital environment, which tends to measure financial performance more succinctly, many universities find it difficult to initiate structural and strategic
changes, given the cultural complexities of an environment where the key constituents, faculty, alumnae, donors, students and in some cases legislators, tend to resist change.

Our consulting practice within the ELS segment is the best in the business. Last year we provided services to over 150 colleges and universities and we are on pace to exceed that number this year. The difference over the past year or so is that we have completed implementations on several large projects and we have not fully replaced them with new implementations.

We continue to do a lot of assessment work but the university appetite for full scale implementations continues to vary. Our market presence is as strong as ever and I believe it is only a matter of time before we see a better compliment of utilization and margins in this business.

While we are not satisfied at the current levels, I believe we are going to see performance in this practice improve over the next several quarters. My continual presence in the market, including serving several clients, provides me with comfort that our experienced personnel and strong reputation will serve us well as the education market continues to react to significant competitive pressures.

During the first quarter of 2014, we realigned reporting of our enterprise performance management or EPM practice, which was acquired as Blue Stone International last October. At the time of the acquisition, we placed Blue Stone in the ELS segment based on the collaboration that was taking place among Blue Stone and the higher education practice. During the past six months, as our new EPM practice continued its sales efforts across many industries, it became apparent that the growth of the EPM practice will be best achieved in a segment that serves multiple industries.

As of the first quarter, results of EPM will be reported in the Huron Business Advisory segment.

The EPM practice has performed well during the six months that it has been under the Huron umbrella. This practice is extremely market focused and it’s continued to bring in new clients to Huron, both domestic and internationally.

This is a very solid group of professionals that have already achieved a high degree of collaboration among the various Huron practices. We are excited about where this practice is going and its ability to broaden the range of services offered by Huron.

Our legacy Huron Business Advisory segment turned in a solid quarter, whereas other firms have struggled with this segment area, our personnel continue to respond well to a challenging market. The addition of our recently announced broker-dealer license will enhance the service offerings within the segment and will enable us to participate in transactions in a more meaningful way than we have in the past.

While this is the smallest of Huron segments, we believe that the experience of our personnel and business advisory and the solid value that they bring to clients will enable this segment to meet our growth and performance expectations for the year.

Let me now turn my attention to guidance, which I know will be top of mind for many of you, in light of our strong Q1 performance. As you are aware, we issue annual guidance, which we evaluate on a quarterly basis. When we provided our 2014 revenue guidance about 60 days ago, we expressed confidence in our ability to organically grow this company at the mid to upper single-digit pace for the foreseeable future. The extent of change taking place in our core markets and our strength and presence in those markets continues to give me comfort that our growth rates are reasonable.

We manage this company based on an annual plan. And given the uncertainties over the timing of certain performance-based projects and the fact that we are only one-third of the way through the year, consistent with our historical practice, we will not modify our annual revenue guidance today. We do expect to evaluate and update guidance when we report second quarter results.

We are pleased with our performance so far in the second quarter and will provide more insight into our revenue and earnings guidance in late July.
For similar reasons, our performance-based revenue guidance also will not change at this time. When we issued year-end results in February, we indicated that performance-based revenues would be more front-end loaded in the first half of the year than has been the case during the past several years.

We remain pleased with the flow of assessments and new work and while the timing of revenues stemming from these opportunities is always hard to predict, we continue to be comfortable with our plans to organically grow our annual revenues in the mid to upper single-digit range for the foreseeable future.

Finally, we are excited to have announced last week our agreement to acquire Vonlay. This is an important strategic acquisition for us and will enable us to offer new services to our hospital clients as they attempt to get a return on the sizable investments that many of them have made in new electronic health record systems.

We also believe that the analytics skills provided by Vonlay will enable us to better assist our hospital clients in managing the ongoing transition to population health. We are expecting to close this acquisition in early May and we look forward to having this very bright team of people onboard with us at Huron.

We continue to have an active M&A pipeline. In the past three quarters, we have made three strategic acquisitions that add value to several of our practice areas. We continue to see attractive M&A opportunities to enhance our business across all of our segments.

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

Mark Hussey - Huron Consulting Group Inc - CFO, COO, and Treasurer

Thank you Jim and good afternoon everyone. Before I begin, let me remind everyone of a few housekeeping items. I’ll be discussing non-GAAP financial measures such as EBITDA, adjusted EBITDA, adjusted net income and adjusted EPS.

Our press release, website and 10-Q each have reconciliations of these non-GAAP measures to the most comparable GAAP measures along with a discussion of why management uses these non-GAAP measures.

First, let me address a few items regarding our recent acquisitions. Blue Stone, which we acquired in Q4 of last year, has been realigned from the Education and Life Sciences segment to the Huron Business Advisory segment as Jim just mentioned. We now refer to Blue Stone as our enterprise performance management or EPM practice.

In addition, we acquired the Frankel Group, a leading life sciences consulting firm at the beginning of 2014, so our Q1 results include that acquisition. In contrast, our pending acquisition of Vonlay, which was announced last week, is expected to close in May and upon closing will be included in our second quarter results.

Now let me walk you through some key financial results for the quarter. We began 2014 with first quarter revenues of $210.7 million, up 28.5% from a $164 million in the same quarter of 2013. The first quarter of 2014 benefited from higher performance-based fees compared to Q1 2013, as well as incremental revenue from our acquisitions of Blue Stone and the Frankel Group. I’ll have some additional comments about performance-based fees in just a moment.

Operating income increased almost 96% to $41.8 million in Q1 2014, compared to $21.3 million in Q1 2013. Adjusted EBITDA, which excludes a number of items that are listed in our press release, was $49.1 million in Q1 2014 or 23.3% of revenues compared to $25.6 million in Q1 of 2013 or 15.6% of revenues.

Net income from continuing operations was $34.1 million or $1.48 per diluted share in the first quarter of 2014 compared to $11.4 million or $0.51 per diluted share in the same quarter last year. Q1 2014 was favorably impacted by a one-time tax benefit of $10.2 million or $0.44 per diluted share.
This tax benefit resulted from the company’s "check-the-box" election to treat one of its wholly-owned U.K. subsidiaries as a disregarded entity for U.S. federal income tax purposes. Let me pause for just a moment to discuss the tax benefit in a bit more detail.

Huron has operated in U.K. since 2006 and made a few small acquisitions through 2012. Many of you that have followed the company for some time, know that one of the drivers of our higher effective tax rate compared to the statutory rate has been our foreign losses with no tax benefit.

Following 2013, we evaluated our investments and our tax structure, which led to us make the check-the-box election in Q1 of 2014. Looking ahead, we continue to see the U.K. is an attractive market and remain optimistic about its long-term growth prospects.

Adjusted non-GAAP net income from continuing operations, which excludes the one-time tax benefit, was $25.5 million or $1.10 per diluted share in the first quarter of 2014, compared to $11.6 million or $0.51 per diluted share in the same period in 2013. Our effective income tax rate in the first quarter of 2014 was 16% compared to 41.7% a year ago. The low effective tax rate in Q1 2014 was primarily due to the check-the-box election that we previously discussed.

Excluding the impact of the one-time tax benefit, our effective income tax rate was 41.2% in Q1 of 2014. The effective tax rate for Q1 2013 was higher than the statutory rate, due primarily to the impact of foreign losses with no tax benefit and certain nondeductible business expenses.

On a full year basis, we anticipate our effective tax rate to be approximately 32% for 2014, inclusive of the one-time tax benefit. On a normalized basis, excluding the nonrecurring tax benefit, we expect our effective tax rate to be approximately 41.5%. Going forward, we'll continue to seek ways to lower our effective tax rate overtime.

Now, let's look at how each of the operating segments performed during the quarter. The Huron Healthcare segment posted revenues of $107.5 million the first quarter of 2014, up $28.8 million or nearly 37% over the first quarter of 2013.

Performance-based fees in Q1 of 2014 were $31.1 million compared to $18.4 million in the same quarter last year. Excluding performance-based fees, revenues increased nearly 27%. While we're pleased that our Huron Healthcare segment had another strong quarter, we expect some moderation in the second half of 2014, as performance-based fees are likely to be greater in the first half than in the second half of 2014.

As we've said on many occasions, the timing of performance-based fees can vary dramatically. They are not driven by a seasonal pattern, but rather the mix of engagements at anyone point in time.

The operating income margin for Huron Healthcare was 47.6% for Q1 2014 compared to 39.6% for the same quarter in 2013. The increase in margin was largely driven by the higher level of performance-based fees, as well as lower salaries and related expenses as a percentage of revenues.

As many of you know, in the interim quarters, we record bonus expense to the midpoint of the annual guidance range, which we are maintaining. Consequently much of the incremental performance-based fees in the quarter fell to the bottom line.

Our Huron Legal segment continued its momentum from Q4, posting record revenues of $55 million compared to $51.1 million in Q4. Compared to the same quarter in 2013, revenues increased over 34%. The increase in revenue was attributable to an increase in demand for our discovery services, resulting in higher utilization of our document review centers. Utilization within our consulting practice also saw an increase from 52% in Q1 of last year to 64% in Q1 of 2014.

The operating income margin for Huron Legal segment was 22.7% in the first quarter of 2014, compared to 7.2% in the same quarter of 2013. The increase in this segment’s margin was primarily due to lower salaries and related expenses as a percentage of revenues, as well as lower technology, rent and marketing expenses.

Huron’s Education and Life Sciences segment posted revenues of $33.6 million for the first quarter of 2014, and as noted earlier include the Frankel Group. Revenues for the first quarter of 2013 were $35.7 million.
The operating income margin for Huron Education and Life Sciences was 19.2% for Q1 of 2014, compared to 26.2% for the same quarter in 2013. The decrease in this segment’s operating margin was mainly due to increases in contractor expense, marketing expense, and technology investments as a percentage of revenues.

The Huron Business Advisory segment posted revenues of $13.4 million for the first quarter of 2014 and includes $6.6 million from our EPM practice which we acquired in Q4 of last year. Excluding the EPM practice, revenues for the first quarter of 2014 were $6.8 million compared to $8.6 million for the same period last year, a decline of about 21%, primarily reflecting the timing of engagements in our financial advisory practice.

The operating income margin for the Huron Business Advisory segment was 19.1% for Q1 of 2014, compared to 39.4% for the same quarter in 2013. The decrease in this segment’s operating margin was mainly due to the decline in revenues and our financial advisory practice previously mentioned.

Now turning to the balance sheet and cash flows, we ended the quarter with over $21 million in cash despite our annual bonus payments and the Q1 acquisition of the Frankel Group. We begin to repurchase shares on the $50 million open market share repurchase program that was authorized by our Board in Q1. Through the filing date of our 10-Q, which we expect to be tomorrow, we will have purchased 157,850 shares at a total cost of approximately $9.5 million, representing an average price of $60.40 per share.

DSO came in at 69 days for the first quarter of 2014. Performance-based fees that were recognized during Q1, but have not been billed or collected had about a seven day unfavorable impact on our DSO this quarter. We expect that the strength of the balance sheet and cash flows will continue to support both our active M&A pipeline and our ability to return value to our shareholders through share repurchases.

Now let me make a few comments about guidance, which was originally issued when we released our full-year 2013 results in late February. We maintained our revenue guidance in Q1, as we have typically done in the past at this stage in the year. We expect to update our guidance when we release Q2 results, at which point we will have more visibility into the remainder of the year.

However, you will note that we did update our GAAP guidance in connection with Q1 earnings, due to the one-time tax benefit that was recognized in Q1. Specifically, we updated our GAAP earnings guidance for GAAP net income, taxes and GAAP earnings per share for the impact of the one-time tax benefit.

So with that said, for full year 2014, we anticipate revenues before reimbursable expenses in a range of $765 million to $795 million. Embedded in our guidance range are expected performance-based fees in the range of $90 million to $100 million; adjusted EBITDA in a range of $141.5 million to $150 million; net income in a range of $74 million to $78.5 million; and adjusted non-GAAP net income in a range of $69.5 million to $74 million; GAAP EPS between $3.20 to $3.40 per share and adjusted non-GAAP EPS in a range of $3.00 to $3.20 per share.

And finally with respect to taxes, you should assume an effective tax rate of approximately 32% for 2014 or approximately 41.5%, excluding the one-time tax benefit.

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

With that, I’d now like to open up the call to questions. Operator?

QUESTIONS AND ANSWERS

Operator
(Operator Instructions) Timothy McHugh, William Blair.
Timothy McHugh - William Blair & Company - Analyst

I guess first just on Healthcare, you talked about how in the second half of the year you expect a moderation in the performance-based fees. Is there any reason you expect the non-performance based fees, I guess to moderate from current levels and I know sometimes fees continued to be higher towards the tail end of projects, so is that factored into the outlook here at all?

Mark Hussey - Huron Consulting Group Inc - CFO, COO, and Treasurer

Yes, Tim. This is Mark. I would say that the ongoing market continues to be very attractive. But, I would say that just aside from tougher comparisons, as you know the second half of last year was pretty good, both from an underlying growth as well as from a performance-based fee perspective. So, really aside from just tougher comparisons, I don’t think there’s anything else that would alter out our outlook.

James Roth - Huron Consulting Group Inc - President and CEO

I would agree that. And I think the healthcare businesses, I mean what’s really driving it is the market still is very strong and I really don’t -- in fact to some extent, the market’s been more challenging from our clients’ perspective. So, I think we continued to be very pleased with the way things are developing in the healthcare segment.

Mark Hussey - Huron Consulting Group Inc - CFO, COO, and Treasurer

As I said, we kind of look at the healthcare business and we don’t always get to make the calls on whether the jobs are going to be performance-based or fixed-fee. But, we see ongoing strength in the business and I think that the second half will be probably as strong from a run rate perspective. It’s not exactly the way we look at it here, but I don’t see any deterioration in the overall scope of the business. And lastly, I would just add that. Go ahead, Tim.

Timothy McHugh - William Blair & Company - Analyst

I was just going to say maybe more broadly across the business, is there anything, not just healthcare I guess, but besides performance-based fees, is there any specific factors you know at this point that would caution you about projects ending or stuff like that in terms of the second half of the year versus the first half of the year? And again kind of acknowledging the performance fees, okay.

James Roth - Huron Consulting Group Inc - President and CEO

No. Nothing outside the normal course of business.

Timothy McHugh - William Blair & Company - Analyst

All right. And then in the legal segment, that’s always been choppy but obviously a nice size step-up there mid quarter. Are these new sizable client relationships or new sizeable I guess kind of market share at existing clients that you are, recognizing the volatility, you feel is sustainable, or was there an unusual large project or something like that that popped up on the discovery side this quarter?

James Roth - Huron Consulting Group Inc - President and CEO

Tim, it is Jim. I think it was little bit of both. We had a couple large projects that were there, so that was certainly part of it. But we also had some new clients come in, that added to it as well. So it’s kind of a combination. I think the new clients wins will stay. With the ones that gave us a real
big pick up from some of the legacy clients, it's really hard to project how far they are going to progress quarter-by-quarter. But we were pleasantly surprised in this past quarter.

Operator
Paul Ginocchio, Deutsche Bank.

Paul Ginocchio - Deutsche Bank - Analyst

Just back to legal real quick, maybe you hinted at it; you typically sign sort of master service agreements with large corporates. You talked about helping. Can you just talk about where you are on that and how many you signed in the quarter and was that roughly -- and how much of that contributes to the uptick?

Typically your first quarter is your smallest quarter of the year. Would you expect in 2014 your first quarter in legal, or at least in e-discovery, to be your biggest quarter this year?

Mark Hussey - Huron Consulting Group Inc - CFO, COO, and Treasurer

This is Mark. I think first of all, it really is hard to say what the MSAs translate into it just because the revenue is really driven by the individual size of the matter, which can vary dramatically across the numbers in clients.

What I will say is that our GSO is out there doing a really nice job of securing new clients and also opportunistically getting after the market based transaction that can help drive that through the relationships. So once you have the relationship, you are positioned to gain the ability to get the transaction.

We've also seen some additional work through some of the law firm clients, again in collaboration with our end market clients as well. So, I would say that this year, looking at the quarters, to answer your question, I don't think the run rate, growth rate is going to be sustained at 30 some-odd percent, fair to say, but I do think that we are going to see probably mid to upper single-digit growth for the year.

Paul Ginocchio - Deutsche Bank - Analyst

Great. And can you just remind us when you hired those GSOs and this quarter are we seeing some of the benefit? And just a follow-up; I thought that your new adoptive analytics, if I'm saying that correctly, was going to actually hurt revenue. Are we seeing impact from that? It was going to be sort of negative to your revenue but positive to your margin. Thanks.

Mark Hussey - Huron Consulting Group Inc - CFO, COO, and Treasurer

Not really, Paul. I think we are seeing increase in the number of clients who are just choosing that because it's a very cost-effective alternative for them. But it really is not having any kind of negative revenue impact that would be discernible at all. The GSO, to answer your other question, has been out there coming up on two years from when we initially started building this organization out. And I would say largely, it's in place and been in place and now trying to just run as a normal sales organization and having some success in the marketplace.

Operator
Tobey Sommer, SunTrust.
Tobey Sommer - SunTrust - Analyst

On the legal front, what kind of cost savings does the new offering generate to a customer versus, either the prior methodology, or I should say existing methodology, or what you see out there among competitors? I just want to get a sense for the differential of what you're putting out in the market now.

James Roth - Huron Consulting Group Inc - President and CEO

Tobey, it's Jim. I don't know that we know -- to the second part of your question; I'm not sure that we know how it compares to the competitors. I know that it ends up -- I mean, the objective is really to minimize the number of documents that ultimately need to be reviewed. And so, it's going to be the amount of savings. This really translates into more of a cost efficiency issue and that is you end up having to review less. I've seen estimates anywhere from 10% to 25%, but it's going to vary dramatically.

I think in theory, if you look at one isolated case, you might find that we would have lower revenue than we might otherwise have and we've done it the legacy route. But the part that counteracts that is that you, as the market gets more comfortable with this service offering, that you end up getting more revenue.

And that was really our bet, that over the long haul we'd have more revenue because we would be more attractive in the marketplace because of its cost efficiency and it would yield us better margins. That's playing out right now. I can't say that's played out, because integrated analytics is still reasonably new, but I think it's increasingly getting accepted in the market and that's the trend that we expect to see.

Tobey Sommer - SunTrust - Analyst

Great. I know it's a competitive marketplace; how much of a lead on competitive products do you think you have?

James Roth - Huron Consulting Group Inc - President and CEO

I don't know. It is competitive. It's a fast-moving market. The only way we can really know the answer to that is to go back and kind of try to figure out why we're winning certain jobs and losing others. When we win work in the legal area, it's a combination of, firstly, these are typically pretty complicated situations and so the client wants to know where have you done something similar before? So there is only a certain number of firms that can pass that hurdle.

I think the next question then is what kind of the cost estimate would we have for this particular engagement, and so we can provide them a variety of options for them to choose from.

And then third is something we tried to point out during the earlier part of my discussion, was that increasingly we are seeing these issues of data security become very key. Some of the clients actually come and they will audit our processes to find out how well we are capable of ensuring the security of their data.

And I think that really begins to separate the men from boys in that one, in the sense that we really have a chance to put together a package of controls and cost efficiency and experience that I think is unparalleled in the market. I think that's why we're doing all right now. And I think that's going to continue to be our market differentiator in the future.
Tobey Sommer - SunTrust - Analyst

Thank you. Jim, in the education consulting practice, I understand that the cultural change that you described and rallying the constituencies to some sort of consensus can take time. Do you have an example of kind of early success at rallying those constituencies and do you feel like you’re learning how to more effectively do it to expedite the process of kind of green-lighting projects?

James Roth - Huron Consulting Group Inc - President and CEO

Yes, we do. I mean, in a university environment one of the most important things that we do, and we talk about it all the time, is we’ve got to communicate with the constituents. So, even if senior leadership wants to go down a path because of the unique nature of higher education, if you don’t really have an ability to go out and talk to the client, talk to the constituents and explain what’s being done and put it into some kind of perspective, you are likely to run into some problems.

There were some notable problems that have become very public in the last month that were fortunately not our work, but they were work of some of our competitors in two very public situations; one is Michigan, one in Texas, where the faculty and the administrators railed up against the change that was being proposed.

And I won’t get into the merits of those situations, other than to say, it really highlights the need for how sensitive these environments are and how difficult it can sometimes be to make change. And again, the merits of the change, the need for it, all those things, the extent of the change, all are on a case by case basis. But, it’s a tough issue, but it’s one that I think the industry is beginning to come around to, And the question is how quickly and how aggressively you want to make change and that’s why this just takes a little bit of time.

Tobey Sommer - SunTrust - Analyst

Thanks. Just two quickly numerical questions and then I will get back in the queue. One, in the healthcare segment, how many either customers or hospitals do you think you touched last year or do you expect to touch this year? Just trying to get a reference point for how much of the market you come into contact with in a given year. And Mark, what kind of long-term goal could you have for the tax rate? Thanks.

James Roth - Huron Consulting Group Inc - President and CEO

Well, I will take the first one. I think we said we had something like a 150 college university clients, something like that in the first quarter for 2013, I think it was, yes. So that gives you some sense as to how many we’ve touched. Probably a little bit more than that, but some of them were small. But I would say 150 are so reasonably decent, some clients, some very large, some much smaller, but that gives you some sense there.

In terms of hospitals, my guess is this is probably the 50 to 60 range. I mean, so in both cases, there is actually still a lot of room out there. There is a lot more than 150 colleges and universities. There are certainly a lot more than 50 to 60 hospitals. And that’s always given us comfort that there is room to move in terms of our market.

Mark Hussey - Huron Consulting Group Inc - CFO, COO, and Treasurer

Tobey, then to your second question on the effective tax rate over time; we are primarily U.S. based company and that’s going to have us starting at 35% and then everything else really is an adjustment off of that. The increase on top of that is largely driven by the net state tax rate -- state rate net of tax federal benefit. If we can get our rate around 40% over time, I think we’re going to be doing pretty well. And I think that there is ways to lower that even beyond that, but I think it would take a different mix of our U.S. versus international businesses to achieve it materially.
Jerry Herman, Stifel.

**Jerry Herman - Stifel Nicolaus - Analyst**

Hey guys. I was wondering if you could give us help on the organic growth rate in the quarter? You helped a little bit with the Blue Stone contribution, but how about Frankel in terms of what contribution that made?

**Mark Hussey - Huron Consulting Group Inc - CFO, COO, and Treasurer**

Jerry, directionally, Frankel, it closed in January and we didn’t talk about weather having any impact on our business, but that one probably had a little bit slower start with the transition and the like. So, it’s in the neighborhood of about $3 million in the quarter. And so collectively with the Blue Stone, you are looking at about just under $10 million; about $9.5 million.

**Jerry Herman - Stifel Nicolaus - Analyst**

Helpful. And then Vonlay, help us size that business; is it fair to assume that the number of professionals times the existing revenue for FTE in that business or should it vary from that sort of framing?

**Mark Hussey - Huron Consulting Group Inc - CFO, COO, and Treasurer**

You know, it’s a very different business than our existing healthcare practice. So, their revenue per employee is probably in the mid 50% of what our average is in healthcare. So, if you kind of look at it from that perspective, it will probably lead you to about the approximate run rate for what that business is expected to do.

**Jerry Herman - Stifel Nicolaus - Analyst**

So a little bit more than half the annual production per employee--?

**Mark Hussey - Huron Consulting Group Inc - CFO, COO, and Treasurer**

So as an example, last year we averaged, about 346 was the average revenue per employee in healthcare. They are probably in the 55%, mid 50% range as an average.

**Jerry Herman - Stifel Nicolaus - Analyst**

That’s very helpful. I know you guys didn’t update your guidance on performance-based fees, but has the pool of opportunity grown in that business this year?

**Mark Hussey - Huron Consulting Group Inc - CFO, COO, and Treasurer**

When you say pool of opportunity, Jerry, you mean specific performance-based fees or do you --?
Well, the assumption here is that you had some pool of business up for grabs and that you apply a success rate or probability to that pool to come up with your guidance. So I guess the question is, has the pool enlarged?

Mark Hussey - Huron Consulting Group Inc - CFO, COO, and Treasurer

We actually don’t think about our performance-based fees really in that context. It’s really more looking at the pipeline and the mix of engagements and having some set of expectations at how much of that will end up resulting in there. We said over time it tends to vary in a certain range, but we’ve had examples where we’ve had large engagements where we’ve had complete fixed-fee and we’ve had other engagements that are large and have been primarily performance-based fees. It just really is dependent on the risk profile that the client wants.

James Roth - Huron Consulting Group Inc - President and CEO

Gary, this is Jim. I guess one thing I would add would be that I don’t know that the pool has changed I think the way you are looking at it. At the beginning of the year, there is a set of engagements we have at that time and ones that we project we might get during the course of the year and that gives us some sense, in terms of how to begin to project performance-based fees. And so that pool was what formed the basis for our initial guidance for performance-based fees.

What’s happened in the first quarter, which is similar to what happened in the fourth quarter, is that for a number of the engagements, that pool and that building more than we had originally thought. And so, that gives us a bump that we saw in the fourth quarter, and we saw it again in the first quarter. But I think it largely is still reflective of the same pool.

The part that we don’t pull now is we’ve got some projections for work that we haven’t sold yet or looked at that’s still yet to come and it’s the timing and size of those that gives us some pause about making that call on additional guidance at this stage of the year.

Jerry Herman - Stifel Nicolaus - Analyst

That’s helpful. And Jim, just a question on higher ed. I mean, your comments about your expectations that it should get better; I wonder about the notion that state budgets have gotten better and endowment funds have performed well, and in essence has it taken the pressure off in any way that would potentially delay the opportunity in that business?

James Roth - Huron Consulting Group Inc - President and CEO

No, I actually don’t think -- I mean, we are seeing pressure at even some of the most prestigious places right now. I think the overall environment is increasingly difficult, and it’s increasingly difficult for a broader range of clients than we’ve typically served as well.

And so the issues -- the solutions or the strategies for addressing those issues are complicated and a term I’ve used before, are increasingly invasive, and that combination just takes some time to get the right environment with which to start to enact those things. And that’s really what we are up against right now.

I just think that there are some real challenges out there. I’ve been involved with some of them, so I know exactly what’s going on. And if you look at the nature of potential solutions, they’re hard to enact; you’re not just going to go back and look at that and say, okay, fine, let’s go ahead and do it. It take some time and I think that just what we’re seeing right now. But I don’t think -- the budget cuts and anything else are probably going to lead to more work, not less, would be my sense.
Randy Reece - Avondale Partners - Analyst

Hi, this is Randy. I just was wanting to understand. Looking at the underlying billing rate in Healthcare, in past years, if you just extract the success-based fees, in past years that would have looked relatively weak in the first quarter because of the amount of assessments you did at relatively low rate and this year looked really good. And I was wondering if there is anything I should understand about that?

James Roth - Huron Consulting Group Inc - President and CEO

Randy, this is Jim. I think the only thing to understand is that, I think there really is not any seasonality to our Healthcare results. What really over the last three years appeared to be some seasonal patterns developing, we always said, were just the way that the engagements were rolling out and that we now just happen to have a portfolio of engagements that have contributed strong third, fourth and in this case now, first quarter results.

So, it really is not at all seasonal. And so that's why it's hard first to think about any kind of pattern in any quarter, frankly. It's just a reflection of the engagements that we have at the time and the way those projects rollout. And we now are, as we said, when we issued year-end results, we knew that the pattern was going to yield stronger performance-based fees in the first half of the year and that's exactly what we are seeing. But I think there's no pattern to this at all and anything that looks like a pattern in the past, I think is just really random.

Randy Reece - Avondale Partners - Analyst

Okay. With the increase in headcount in Healthcare in the first quarter, does that have any effect on what you'll do the rest of the year?

James Roth - Huron Consulting Group Inc - President and CEO

Well Randy, the way we look at the headcount is we are always kind of trying to build-up in contemplation of events that occur in the rest of the year and beyond. And so, there is never a full match of headcount increases to growth rate, other than say that over a period of time they should be reasonably matched. But you're going to see sometimes that our growth rate is higher than our hiring and other times, you'll see the reverse. And I think it's just again, a pattern of where we're at and kind of the way we begin to see things unfolding. So, I think the growth rates that we've described at this practice in the longer term, we still feel pretty comfortable with in terms of mid to upper single-digits.

Joseph Foresi - Janney Montgomery Scott - Analyst

I was wondering if you could talk a little bit about -- and we've kind of asked this question in a number of different ways today; what's the pipeline in healthcare look like? In other words, you work through a little bit of it here quite early in the year; has it replenished, is it increasing? Now, how do we think about the pipeline versus some of success fees and the obvious revenues in this quarter?
James Roth - Huron Consulting Group Inc - President and CEO

Well, Joe, the pipeline remains strong. We don’t quote the number of assessments that we’re doing. But, if you wind back to a year ago and you asked us what did the pipeline look like in April of 2013, we would have told you it looks pretty strong and we look like we were probably angling towards some decent performance fees in the latter part of the year.

And this year when we look at it, we feel pretty good about the pipeline. We’ve got a strong number of assessments. We know that the opportunities that’s driving our market and driving our position in the market remains just as strong as they’ve ever been. In fact, my opinion is it’s actually more acute out there right now, in terms of the need for our services. So I think things are going.

You’re going to see an ebb and flow, as we go through assessments and we’ve seen, it’s never a straight line and this year is not going to be an exception. But I think in general, we feel very good about the way the market’s shaping up. We feel very good about the growth and the kind of services that we have across our whole healthcare spectrum. And probably most important, I think, we continue to provide a lot of very demonstrable value to our clients, which is driving our demand right now. So, that’s probably the best I can say.

Joseph Foresi - Janney Montgomery Scott - Analyst

And without giving guidance, because I know you’re updating it at the end of next quarter, but as we look at the performance-based fee trajectory going-forward, obviously it ticks down in the back half of the year; but is it safe to say that as opposed to kind of a couple years ago, we don’t see a dramatic shift? Because I remember, if we go back, maybe one or two years ago, we saw -- has the lumpiness in that business at least smoothed out and we won’t be expecting any kind of major drop-off in those fees?

Mark Hussey - Huron Consulting Group Inc - CFO, COO, and Treasurer

Joe, the answer is no. They are completely lumpy. They’re going to continue to be lumpy. And so really again, it goes back to the mix of engagements that we have at any point in time. And so, I just want to be clear, that’s likely to continue and just as Jim indicated, there is really no pattern for it.

Our belief is that, at least as we look for the year, our $90 million to $100 million guidance range is pretty good. We think that more than likely it’s going to be front-end loaded, by really the nature and timing of the engagements that we have this year compared to what it’s been in the last three years really. And we don’t think that there are any other long-term implications other than these engagements happen to fall in these two quarters versus the second half of the prior three years.

James Roth - Huron Consulting Group Inc - President and CEO

And we’re at the point right now, there are so many variables that impact the amount of and timing of the performance-based fees. Even in 2013, I remember, we were sitting there at the middle of December and we could have had a $10 million or $15 million swinging either way; in the fourth quarter or the first quarter. And so, we just don’t want to get into the game of trying to project when they are going to come in, because we have no control over them.

So, the way we respond to that is we get as much work as we can and we try to do the best we can and let the cards fall where they may, in terms of timing. And we’ve been fortunate that the timing -- we’re less concerned about the timing. Our more concern is just meeting the standards that are we’re supposed to be doing. And there, we’ve actually had some really good results. And I think that’s what continues to drive our value and our reputation in the market.
Joseph Foresi - Janney Montgomery Scott - Analyst

Got it. In the Life Science business, I think you talked about a pick-up in maybe the core business exiting the first quarter; is that sustainable at this point? I know obviously there’s an acquisition and that’s going to help results, but what caused that pick up and how sustainable do you think that is in the core business of course?

Mark Hussey - Huron Consulting Group Inc - CFO, COO, and Treasurer

Joe, this is Mark. It really is just that we came off some of a weaker second half and so the pick-up is really in relation to the lower run rate that we had at the back half of the year. Really when you look at our Life Sciences business, we are very bullish on it because we now have with the Frankel Group, a focus on really the C-suites that we were not otherwise present in.

And so from a sales and marketing, from corporate strategy, from business development, whether it’s licensing, we now have a complementary offering to already being in there from a compliance standpoint and some of the other Sunshine Law reviews, other services that we continue to offer to more of the general counsels’ office. So that combination just gives us a much more powerful alignment. And again, we’re delighted with the team that we picked up from the Frankel Group and think with that combination, we’re well positioned moving ahead for the year.

Operator

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

James Roth - Huron Consulting Group Inc - President and CEO

Thank you very much for spending time with us this afternoon. We look forward to speaking with you again in July, when we announce our second quarter results. Good evening.

Operator

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

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