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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 2021. (Operator Instructions) As a reminder, this conference call is being recorded.

Before we begin, I would like to point all of you to the disclosure at the end of the company's news release for information about any forward-looking statements that may be made or discussed on this call. The news release is posted on Huron's website. Please review that information, along with the filings with the SEC for a disclosure of factors that may impact subjects discussed in this afternoon's webcast.

The company will be discussing one or more non-GAAP financial measures. Please look at the earnings release and on Huron's website for all 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 2021 Earnings Call. With me today are John Kelly, our Chief Financial Officer; and Mark Hussey, our President and Chief Operating Officer.

Our first quarter financial results were in line with our expectations. Revenues declined 9% in the first quarter of 2021 as compared to the same period in the prior year, driven by declines in the Healthcare and Education segments. Those declines were partially offset by strong growth in the Business Advisory segment.

During the first quarter, we saw an increase in our sales pipeline and the pace of signings in our Healthcare and Education businesses, which gives us further confidence in our ability to meet our updated full year performance expectations. As the overall demand for our services has increased during 2021, we now believe we are past the pandemic-driven low watermarks for Education and Healthcare segment revenues, and we expect sequential growth in these businesses moving forward in 2021. We believe the low point for the Education segment occurred in the fourth quarter of 2020, while the low point for the Healthcare segment was in the first quarter of 2021.

Looking ahead, we see increased demand for our Healthcare and Education services as our clients prepare for a recovering economic environment, which has also strengthened growth in our Business Advisory segment.

I will now share some additional insight into our first quarter performance. During the first quarter, Healthcare segment revenues declined 17% over the prior year first quarter, reflective of the difficult first quarter comparisons driven by the growth we experienced in the segment at the beginning of 2020 prior to the impact of the pandemic. The Healthcare business got off to a slower start this year given the continued disruption of the pandemic and vaccine rollout on our hospital and health system clients.

As the quarter progressed, our sales pipeline increased and remained at record levels and the pace of signings and conversion to hard backlog also improved each month. Assessments for our performance improvement offerings have continued to grow and in April assessment volume neared pre-pandemic levels. As hospitals and health systems plan for a post-pandemic future, many organizations are prioritizing several key initiatives. Among the most important priorities is making care more affordable while also providing greater price transparency to consumers.

As we look at our pipeline, market demand is focused on our core performance improvement and managed services offerings to address near-term financial pressures. In addition, we are seeing substantial demand for one of our newest offerings, which was developed collaboratively across our health care, strategy and technology businesses. This offering helps health systems achieve structural changes to ensure the sustainability of their business model in the future.

Given the near-term financial challenges and long-term growth aspirations of our clients, we believe our collective performance improvement related offerings will continue to be an ongoing source of growth for our business.

A second priority for health care providers is accelerating care transformation strategies to deliver a substantially greater amount of care virtually, including through telehealth, remote patient monitoring and hospital-at-home models. The pandemic has highlighted the need for providers to formalize their long-term virtual care strategies and build the right consumer-centric infrastructure to support patients throughout their care journey.

The breadth of our care delivery, organizational transformation and digital, technology and analytics offerings and deep expertise in implementing telehealth and hospital-at-home models positions Huron to add significant value to our clients as they establish and implement their care transformation.

The third priority among our health care clients is focusing on enhancing the digitization and use of clinical and operational data with a strong emphasis on planning and analytics. Many health care organizations are making significant investments in their administrative operations comparable to some of the investments in clinical systems that have been made over the past decade.

Once again, our Healthcare business is well positioned to help our clients navigate this next wave of digital transformation. The growth of our Healthcare pipeline and the pace of signings in recent months are indications that our offerings are resonating well with our client base as they seek assistance in addressing these key priorities.

Turning to the Business Advisory segment. In the first quarter of 2021, Business Advisory segment revenues grew 12% over the prior year quarter, 9% organically, driven by strong broad-based demand across our strategy, digital, technology and analytics and distressed advisory offerings. As we've discussed on prior calls, we continue to execute on our commercial strategy, which is aimed at going to market collaboratively across the 4 businesses in this segment. The Business Advisory segment has grown revenues at a compound annual growth rate of 15% over the last 5 years, inclusive of the recent pandemic era, which reinforces the importance of this segment to our company's growth strategy.

When looking beyond the numbers, you will find several important attributes of that revenue growth that bode well for the future of this segment. First, we are winning sizable projects among numerous Fortune 500 companies, particularly in energy and utilities, financial services, industrials and manufacturing and life sciences. Second, we continue to capitalize on one of our greatest strategic advantages by integrating our deep industry and functional expertise with our strong strategy, technology and operations capabilities.

Coupled with our nimble approach to serving our clients from strategy through execution, our expertise and experience allow us to compete and win against larger competitors. We are in the process of building additional competencies that will further position the segment for above-average growth in the coming years.

In addition, our digital, technology and analytics offerings continue to provide the foundation for growth in the commercial sector and our distressed advisory services continue to perform well amidst the many financial challenges impacting middle market companies. We are also seeing solid demand for our strategy and innovation services as the economy continues to recover.

Turning now to the Education segment. In the first quarter of 2021, Education segment revenues declined 19% over the prior year quarter, reflective of the difficult first quarter comparisons, driven by the strong growth we experienced in the segment at the beginning of 2020 prior to the impact of the pandemic. Sequentially, Education segment's revenues grew 7% over the fourth quarter of 2020, driven by strong demand in our research, strategy and operations offerings.

Similar to Healthcare, as the quarter progressed, our sales pipeline increased across our offerings and the pace of signings improved month-over-month. While some of the larger ERP-related engagements continue to be delayed, the pipeline of opportunities is widening and many institutions are beginning to feel more comfortable that they have the bandwidth and financial stability to undertake these significant projects. We have also seen smaller institutions moving ahead with their digital transformation, given greater visibility into their financial position.

While some higher education institutions face sizable COVID-19-related losses, others have found the losses to be less than initially anticipated, in part due to financial support by the federal government. Many colleges and universities are now more aggressively evaluating how to be successful in a post-pandemic environment, including trying to establish more sustainable operating models. These attributes will continue to drive demand for our broad set of offerings in this segment.

Before I turn to our outlook for the year, I'd like to add several comments about our collective technology capabilities. As I mentioned last quarter, our technology services grew to over 30% of total company revenues in 2020. Technology has become an increasingly important pillar of growth for this company, and is deeply embedded in each of our segments. We continue to grow our teams in North America as well as in India to support the market demand for these offerings.

Finally, let me turn to our outlook for the year. Historically, we have not adjusted our annual guidance after the first quarter. Today, the signs of recovery in our Healthcare and Education businesses and continued momentum in the Business Advisory segment give us confidence to raise and narrow our full year guidance. As our press release indicates, we are increasing and narrowing our annual revenue guidance to $850 million to $900 million. We are also maintaining our adjusted EBITDA guidance in a range of 10.8% to 11.8% of revenues and increasing our adjusted diluted earnings per share in a range of $2.35 to $2.75.

We raised our revenue guidance to reflect the current and anticipated demand for our services across all segments. We continue to anticipate modest sequential revenue growth in the first half of the year as compared to the second half of 2020, followed by stronger growth in the second half of 2021. We are also investing for the long term, further expanding our capabilities in areas we believe have strong growth potential given current market dynamics, including our healthcare managed services and our digital, technology and analytics offerings across all of our segments.

We are focused on our financial strategy of achieving sustainable organic revenue growth and expanding margins over time, and we continue to believe our business will generate mid- to upper single-digit growth over the medium term. The disruption facing our clients and primary end markets is substantial, stemming from the impacts of the COVID-19 pandemic as well as the rapidly evolving competitive landscape. And we believe this disruption creates significant opportunities for growth in our business.

Before I turn it over to John, let me make 2 final comments. First, I want to recognize the challenge that our Indian colleagues are facing given the recent surge in COVID-19 cases. We are working closely with our country leadership team to support our people and their loved ones as well as the local community and have executed our business continuity plans to minimize the disruption to our business.

Lastly, I want to thank our entire team for all they have done during the pandemic. 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, unless otherwise stated, my comments today are all on a continuing operations basis.

Also, our acquisition of Unico Solution, which closed on February 1, is included in our first quarter financial results in the Business Advisory segment, subsequent to the acquisition date.

Now let me walk you through some of the key financial results for the quarter. Revenues for the first quarter of 2021 were $203.2 million, down 8.7% from $222.6 million in the same quarter of 2020. The decline in revenues in the quarter was driven by the Healthcare and Education segments, which faced challenging pre-pandemic year-over-year comparisons in the first quarter of 2021. This decline was partially offset by continued growth in the Business Advisory segment.

Net income was $5.4 million or $0.24 per diluted share in the first quarter of 2021 compared to net loss of $42.3 million or $1.94 per diluted share in the same quarter in the prior year, which was inclusive of the $59.8 million pretax goodwill impairment charge taken in the first quarter of 2020.

Our effective income tax expense rate in the first quarter of 2021 was 22.1% compared to 21% benefit rate 1 year ago. Our effective tax rate for Q1 of 2021 was more favorable than the statutory rate, inclusive of state income taxes, primarily due to a discrete tax benefit for share-based compensation awards that vested during the first quarter of 2021. This favorable tax benefit was partially offset by certain nondeductible expenses.

Adjusted EBITDA was $16.5 million in Q1 2021 or 8.1% of revenues compared to $19 million in Q1 of 2020 or 8.5% of revenues. Adjusted non-GAAP net income was $7.8 million or $0.35 per diluted share in the first quarter of 2021 compared to $9.8 million or $0.44 per diluted share in the same period of 2020.

Now I'll make a few comments about the performance of each of our operating segments. The Healthcare segment generated 39% of total company revenues during the first quarter of 2021. The segment posted revenues of $79.7 million for the first quarter of 2021, down $15.9 million or 16.6% from the first quarter of 2020. The decline in revenue reflects the ongoing impact of the COVID-19 pandemic in the first quarter of this year relative to a quarter that was largely unimpacted by COVID-19 last year. As Jim mentioned, we believe the first quarter of 2021 will be the revenue low point for this segment related to the pandemic as we expect sequential revenue growth moving forward in 2021, reflecting the ongoing recovery of the health care industry.

Operating income margin for Healthcare was 25.7% for Q1 of 2021 compared to 25.2% for the same quarter in 2020. The quarter-over-quarter increase in margin was primarily attributable to decreases in conference-related expenses, performance bonus and share-based compensation expense and promotion and marketing expenses, largely offset by an increase in salaries and related expenses for our revenue-generating professionals as a percentage of revenues, reflecting lower utilization.

As a reminder, our first quarter results included the annual resetting of our wage bases for certain fringe items like the employer portion of FICA taxes and our 401k match. As Jim mentioned, we continue to invest in areas of our business that align with our enterprise strategy, including managed services. In April, we hired approximately 300 health care professionals to expand our managed services capacity to provide revenue cycle billing, collections, insurance verification and charge integrity services to our health care clients. While we expect revenue of around $10 million during 2021 related to this group hire, we only expect modest accretion from an earnings perspective as we invest to build out our capabilities for future growth.

The Business Advisory segment generated 36% of total company revenues during the first quarter of 2021. The segment posted revenues of $72.9 million in Q1 2021, up $8 million or 12.3% from the first quarter of 2020. Revenues for the first quarter of 2021 include $2.4 million from our acquisitions of ForceIQ and Unico Solution. Our organic revenue growth rate in the Business Advisory segment was 9% for the quarter. The quarter-over-quarter increase in revenue was broad-based across our strategy, digital, technology and analytics and distressed advisory offerings.

The operating income margin for the Business Advisory segment was 17.9% for Q1 of 2021 compared to 15.2% for the same quarter in 2020. The quarter-over-quarter increase in margin was primarily due to increases -- decreases, rather, in restructuring charges and promotion and marketing expenses, partially offset by an increase in performance bonus expense for our revenue-generating professionals.

The Education segment generated 25% of total company revenues during the first quarter of 2021. The segment posted revenues of $50.6 million in Q1 2021, down $11.5 million or 18.5% from the first quarter of 2020. The decline in revenue reflects the ongoing impact of the COVID-19 pandemic as compared to a quarter that was largely unimpacted by the pandemic in 2020. The Education segment grew 7% sequentially in the first quarter of 2021 over the fourth quarter of 2020. And as Jim mentioned, we believe the fourth quarter of 2020 will be the revenue low point for this segment related to the pandemic as we expect sequential revenue growth moving forward in 2021, reflecting the ongoing recovery of the higher education industry.

The operating income margin for Education was 17.1% for Q1 of 2021 compared to 21.1% for the same quarter in 2020. The quarter-over-quarter decline in margin was primarily due to a decrease in utilization, partially offset by decreases in contractor expense, promotion and marketing expense and performance bonuses expense for our revenue-generating professionals.

Other corporate expenses not allocated at the segment level were $28.8 million in Q1 2021 compared with $27.1 million in Q1 of 2020. Unallocated corporate expenses in the first quarter of 2021 include $800,000 of expense related to the increase in liability to participants in our deferred compensation plan, which is fully offset by the corresponding gain in other income related to the increase in value of the assets used to fund this plan. Conversely, unallocated corporate expenses in the first quarter of 2020 reflected a reduction of expense of $4.7 million related to our deferred compensation plan.

Absent the impact of our deferred compensation plan in both periods, the $3.8 million decrease in unallocated corporate costs reflects decreased stock compensation and salaries and related costs for our support personnel, decreased practice administration and meeting expenses and decreased training expenses as well as recruiting expenses.

Now turning to the balance sheet and cash flows. DSO came in at 64 days for the first quarter of 2021 compared to 52 days for the fourth quarter of 2020 and 62 days for the first quarter of 2020. We expect DSO to normalize to around 60 days over the course of 2021.

Total debt includes the $265 million in senior bank debt and a $3 million promissory note for total debt of $268 million. We finished the quarter with cash of $22 million for net debt of $246 million. This was a $110 million increase compared to Q4 of 2020 as the first quarter reflects the payment of our annual bonuses. The first quarter also included $11.5 million of share repurchases under our $50 million Board authorization, $8.5 million of shares redeemed to satisfy employee tax withholdings related to our share-based compensation program and $6 million related to business acquisitions.

Our leverage ratio, as defined in our senior bank agreement, was approximately 2.6x adjusted EBITDA as of March 31, 2021 compared to 3.5x adjusted EBITDA at the end of Q1 2020. The first quarter of 2020 leverage reflects borrowings of $125 million on a revolving line of credit, out of an abundance of caution at the outset of the COVID-19 pandemic. Our net leverage ratio was 2.4x trailing 12 months adjusted EBITDA as of March 31, 2021 when the bank definition calculation is adjusted for cash on hand. This compares to 2.3x trailing 12 months adjusted EBITDA as of March 31, 2020, when calculating in the same manner.

Cash flow used in operations in the first quarter of 2021 was $83 million, and we used $2 million of our cash to invest in capital expenditures, inclusive of internally developed software costs, resulting in free cash flow of negative $85 million.

Finally, let me turn to our expectations and guidance for 2021. As Jim noted, we are raising and narrowing our full year 2021 revenue guidance to $850 million to $900 million. The increase in our revenue guidance primarily reflects the ongoing momentum in our Business Advisory segment and better visibility and increased confidence that we have progressed at the revenue low points related to our Healthcare and Education segments.

In addition, we are forming our full year adjusted EBITDA guidance to be in a range of 10.8% to 11.8% of revenues, and we are increasing our full year adjusted non-GAAP diluted earnings per share guidance to be in a range of $2.35 to $2.75. Finally, we expect our full year effective tax rate to be in a range of 26% to 29%.

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 of Truist Securities.

Tobey O'Brien Sommer - *Truist Securities, Inc., Research Division - MD*

With respect to the Education and Healthcare businesses, I was wondering if you could comment on what the pipeline looks like from a project size and complexity perspective as you work your way through the year and maybe juxtapose that with different ranges of small versus large size historically.

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

Tobey, this is Jim. I'll start. I think -- I mean a lot of things, I think, are beginning to look a little bit like they did towards the end of 2019. I think in terms of size and complexity, we're going to have a mix of decent-sized large systems projects. We're going to always have strategy projects that tend to go a little bit in the middle. And of course, research and students are doing very well. So I think the composition of the pipeline is going to look fairly similar to what it was before.

I think what we witnessed particularly early in 2020 and through a lot of 2020 was scaling back from a lot of clients in terms of the size, just because they weren't sure of the bandwidth and weren't sure if there were going to be other disruptions. But I think we're beginning to see the pipeline begin to resemble what it looked like prior to COVID in terms of size and complexity.

John, anything you want to add to that?

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

Jim, I think I agree with what you said. I think the only thing that I would add is in the Education segment, I think in terms of the research parts of our business as well as the strategy part of the business, I think the pipeline, as Jim said, is definitely -- we definitely have line of sight to kind of pre COVID levels in both parts of -- or those 2 parts of the business. I'd say for the larger admin system replacement projects or the student system replacement projects, we're certainly seeing opportunities in the market.

And in the long run, we're highly confident that that's a very big addressable market for us in a place where we're very well positioned. But in the short term, just because of the sheer size of some of those projects, I think that's probably not quite back to pace yet with the pre COVID levels on some of those bigger ones. But that's something that, obviously, there are opportunities out there that we plan on positioning ourselves well as the year goes on in that part of the market.

Tobey O'Brien Sommer - *Truist Securities, Inc., Research Division - MD*

Could you give us a sense for your hiring posture for internal full-time staff and maybe a little bit more color about that group hire?

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

Sure. I can start on that. From a hiring perspective, I'd say as we start to have better visibility into the back half of the year, and we've seen some of the conversion of the pipeline and some of the opportunities that we've had since the beginning of the year. I think that we have been getting more aggressive from a hiring perspective.

If I take it kind of segment by segment in the health care segment, as you know, our target utilization in that part of the business tends to be in the higher 70s, and we finished the first quarter more in the 68% range. So I think we still have some room from a utilization perspective there. Though we are still making strategic hires. We're probably not adding a ton of capacity at this point just based on some of the capacity we have in our current workforce.

On the Education side, I'd say there, certain parts of the business have rebounded strongly. I think that we -- you do see us getting more aggressive in terms of hiring within the education part of the business. It's a nice sequential growth in the first quarter versus the fourth quarter. Based on our projections for the rest of the year, I think that we expect utilization to tighten up as the year goes on and for the need to expand.

And then on the Business Advisory segment, that segment has been growing at a nice pace really throughout the pandemic, and we've been hiring throughout the pandemic as well. And our expectation is that, that trend will continue as the year goes on.

Tobey O'Brien Sommer - *Truist Securities, Inc., Research Division - MD*

And last question for me, and I'll get back in the queue. Could you talk about either headwinds or tailwinds that have been created out of the many kind of factual appropriations out of Washington and/or the sort of prospective ones. I think there was some comment about basic research in the infrastructure-related bill that maybe could play in the education space. So I wanted to get your perspective there, too.

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

Tobey, this is Jim. Are you talking about Healthcare or Education or both?

Tobey O'Brien Sommer - *Truist Securities, Inc., Research Division - MD*

Both because there's -- gosh, there's so many different appropriations that have factually kind of come out of DC and several more sort of in the works. So...

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

Yes. Well, so I'll make a couple of comments. I think first of all, I think in both cases in health and education, I think a lot of our clients certainly took a hit, I think, in the end -- by the way, I don't want to be presumptuous assuming that this is the end. But at this stage, I think some of the losses that they initially thought were going to happen aren't going to be as severe. It doesn't mean the losses weren't tough, but a lot of them, I think, are ending up 14 months after the pandemic started are probably in better shape than their worst fears earlier in the pandemic. So I think that's likely to be a little bit of a tailwind for us.

I think in terms of the appropriations, particularly around health care -- I mean, so I'm sorry, particularly around research. I think they're generally very good. This administration seems to be very supportive of research. So that should also work out well. The -- I think some of the question marks will be around kind of what happens with respect to reimbursement, particularly around Medicare and Medicaid and whether there ends up being any state, public universities, whether there ends up being any assistance in terms of -- from the state and local governments in terms of providing support, that remains a question mark, I think.

But in general, I think a lot of our clients are positioned now better than they thought they would be, say, 7, 8, 9 months ago. And so I think in general, those are the tailwinds that we're seeing. And I think that's probably the reason that we're seeing the pipeline buildup that we have because I think they're beginning to realize that they now have a little bit more confidence in their own future sustainability and their own ability to accomplish what they want to accomplish.

Operator

Our next question comes from Andrew Nicholas of William Blair.

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

I wanted to ask a follow-up on the hiring environment. I appreciate your color on kind of segment level expectations. But could you maybe speak to the competitiveness of finding talent right now? It seems like there's a lot of your competitors who have similar ideas in terms of adding head count. And I'm just wondering how you kind of take that into account when you're thinking about building into demand later on this year?

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

Andrew, this is Jim. I think it's fair to say that the hiring environment has become more competitive. In part, it's competitive among our competitors, our natural competitors; in part, it's competitive across kind of other industries and people just looking to do different things. There is certainly, particularly around technology and other areas. There's a lot of growth. And so I think as the economy accelerates quickly, you're going to find -- I think a lot of organizations are going to be hiring. So we do find it to be a more competitive environment.

I think our ability to recruit is actually quite good. I think we kind of -- I don't say this lightly, but I think we really have a very strong culture into which to recruit. People know that. People have heard that among their colleagues and friends. And so that gives us a real benefit. But it is a more difficult environment in which to -- it's a more competitive environment, rather, that we're dealing with right now. And so I think at the same time, there may be some people that want to make a transition.

The part that I think that we're somewhat focused on right now is that if you have gone back over the last decade or 2 decades, and you said what was the hardest part about consulting in terms of recruiting, it would be the expectations for a heavy dose of travel. And our sense right now, Andrew, is that I think in most cases -- I'll just throw out a rough number. My guess is, in most cases, the amount of travel that's going to require is probably going to be half of what it was and it may be less. There'll be isolated instances where it's more, but it's mostly going to be less.

And so you end up having one of the hardest things about consulting, and that's fairly frequent travel and you reduce it substantially. It creates a much better environment into which to recruit. So we think that's going to be beneficial for us once the kind of COVID impact begins to settle in.

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

Perfect. That's helpful. And then for my follow-up, and then I'll get back in the queue. Just asking about the pipeline in a different way, just overall visibility across each of the businesses. It seems like pipeline is building quite nicely. The different segments are having an easier time making decisions, but could you just compare visibility now relative to 3 months ago when we spoke on the fourth quarter call and how either of those compares to kind of the summer months? Just trying to get a sense for -- even if it's something isn't in the pipeline, how quickly you would expect those decisions to become more rapid?

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

I would say -- I could take the first stab at that. If I look across the business, and I start with our Healthcare segment, I think the difference probably over the past 3 months is, certainly, our clients have been impacted by what's happened over the past year. And even before that, it was a challenging environment for many of our clients. And so we saw a lot of those opportunities in the pipeline. We've been having a lot of good conversations.

And I think probably the progression from where we were a quarter ago is really towards the back end of the first quarter and then even into the month of April. We had conversion on some of those opportunities and some of those projects that we think are going to be very nice projects for us as the year progresses and to help get us back on our growth trajectory.

I think in addition to that, one of the things that we always look at is our volume of assessment activity. So that's clients that come to us who have issues from a -- at a financial and operating perspective and bring us in to assess the opportunity to help them. And the volume of those assessment activities within Healthcare is within line of sight again of kind of where we were pre-COVID-19. So we feel like that's another key indicator for us that there's a number of projects that are in the pipeline.

And then we've been building out our managed services offerings as well over the course of the past year. And that's another area where we're just seeing a lot of interest from our clients and they're really coming forward to us with opportunities there to help them out. So I'd say that kind of summarizes the Healthcare side of it.

From an Education perspective, I'd say one big difference is, we had a really nice quarter of sequential revenue growth off of what was probably the low point in the fourth quarter similar to what I would describe in Healthcare. I think we've seen a very nice pickup in the pace of conversion of some of those opportunities that we've talked about from the past call or 2 that were in the pipeline. And that was -- whereas some of the Healthcare conversions were more -- they happened towards the end of the first quarter or the first part of the second quarter.

I'd say, on the Education side of the business, particularly within our research and our strategy offerings, we've seen a lot of those conversions throughout the first quarter. So that's another thing that's given us confident. And I'd say, zooming out for a second in both Healthcare and Education, I'd say just in general, the progress that we've made in the U.S. in terms of the vaccine and really for a lot of our clients and the leaders that we talk to, those clients kind of the sense that they're able to now start to think more about their strategic priorities and they're strategic objectives. I think that factors in as well. We see a lot of clients coming forward who are starting to rethink about the things that were on their plate before the pandemic hit and they were severely disrupted over the past year.

And then finally, from a business advisory perspective, Jim mentioned it in his remarks, on the strategy side of the business, we've seen a nice rebound there. Our technology business continues, quite frankly, to build momentum. That very full suite of technology offerings that we have at this point is resonating very well with our commercial clients as well as clients across the health care and education industries.

And then the one maybe area that's a little bit different is our distressed business, which actually had a very nice first quarter and posted some nice growth during the first quarter year-over-year. I would just note that they're up against a couple of tough comps in the second and third quarter, just based on how hot that market was in the second and third quarter. So we still feel good about the pipeline and the opportunities to that business, but it probably will be a challenging couple of quarters of comps here just based on what happened last year.

Operator

(Operator Instructions) Our next question comes from Kevin Steinke of Barrington.

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

So I think you've touched on this a bit in response to other questions. But maybe just can you talk about why the pipeline in Healthcare and Education has continued to move forward and convert maybe a little bit more quickly than you would have expected in your original guidance, perhaps you had kind of built in some more conservatism into that original guidance based on the uncertainty of the situation.

But it's just -- as you talk to leaders in Healthcare and Education, is it just kind of the vaccination rollouts that are really given the confidence to move forward a little more quickly than you'd expect there? What other factors would you highlight there?

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

Kevin, this is Jim. I think there's a couple ways of looking at it. I mean, this is for all of us, this has happened so quickly. And I think if you look at the sequence of events that took place over the last year plus, I mean, we went through that kind of horrific March, April, May time frame, where health care was -- health care and health systems was kind of completely absorbed in the urgency of a new virus and health -- and education was kind of looking and wondering, kids had already gone off-campus and they're wondering, are we ever going to be able to have kids back in September. And then -- but there was still hope that the summer would be better and part of the summer was better, and then it got a lot worse. And so that set things back a little bit in the fall.

And then we had that other surge again in December. So our clients have gone through this horrible period of kind of ups and downs and really trying to guess it. And I think the fact that the vaccines came out in January and have begun to now spread and take hold, I think gives everybody some more confidence they can begin to not just kind of do stuff that they actually thought they wanted to do historically, particularly improving their digital transformations. But at the same time, try to get to the point where they can now be responsive to what, in many cases, including Education and Healthcare is going to be very different markets coming up shortly.

And so that, I think, is why we're seeing this pickup in the pipeline right now. And just in terms of their ability to go back and say, okay, so far, we've kind of survived this. We can't just go back and assume things are going to resume. You've got to do things differently.

So across the board, whether it's care transformation and changes that are taking place there, whether it's telehealth in Healthcare, whether it's new business models in Education, it's just new strategies that are going to be required to kind of meet a very different environment. This is really -- it's all across the board, large, small, public, private, any kind of hospital, they're all really kind of looking at this very uncertain future. I think now they're having enough confidence to know that at least as it seems right now, the worst of it is over, and they can now begin focusing on their business.

I think in the last 12 months, it was hard to focus on your business when you really thought that there might be another surge coming in a matter of weeks or months. So that, I think, collectively, is just kind of a mindset that has enabled people to go back and say, we got to now take care of our business. And I would say more than anything, that's -- those are the factors behind our -- having greater -- bigger pipeline and greater visibility into that pipeline.

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

Okay. Great. That's helpful. And also, I wanted to follow up on your discussion of hiring about 300 people in the managed services area. Is this kind of an outgrowth of that original managed services project you had in Healthcare and -- for a larger client and maybe you've had some success there, and does that kind of speak to why this -- you're being able to expand this offering? I just wanted to see if I could tie that together with what you'd been originally doing in the health care arena.

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

I think, Kevin, it's clearly a continuation of our strategy as it relates to managed services. We do see the need in the market. We see a number of clients who are very interested in opportunities to improve their operations, improve their financial results, and they view managed services with a trusted partner as one way to be able to achieve those objectives. And so we've had a really great partnership on that first project that we've talked about.

We feel like we've been very successful working with the client there to drive a really positive impact for them. And that has kind of opened the door for more opportunities for us to continue to build out those capabilities and to be thoughtful about how we can continue to build out the team there to meet the demand that we expect to be coming. So it is an offshoot in that regard, then we think that the 300 that we've hired. Quite frankly, some of -- there are some -- there is some specific revenue that will come associated with that group, but there were a number of things in our own pipeline, where we really made the determination that bringing these employees on are going to help us execute and most effectively deliver on some of those opportunities that were separately existing in our pipeline. So we're very excited to have them join the team, and -- they think -- our viewpoint is it really helps round out our offerings from a managed services perspective in health care.

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

Okay. Great. That's helpful. You talked about also in your prepared comments, just how sizable technology has become as part of your offerings and that you're going to continue to invest there. Would technology-focused acquisitions still kind of be at top of mind when you're thinking about M&A going forward? And are you contemplating when you're talking about investing in your technology offerings, potentially further acquisitions in that space?

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

Yes. Kevin, this is Mark. I'll address that one. I think the answer is certainly, yes. We see continuing opportunities just to fill in what we think is a fairly comprehensive suite of enterprise platform capabilities today, and it's expanded into data and analytics as well. So there's definitely opportunities for us just to strengthen various areas. And I think you'll see us continue to be active where we see opportunities in the marketplace.

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

Okay. Great. How do you -- just overall feel like where your capacity stands in terms of balance sheet to pursue the -- your acquisition strategy, I assume you're going to continue to pay down debt here, but maybe John, just talk about debt pay down and where you'd like to get from a leverage perspective.

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

Sure. Kevin, to answer your first question, I think we feel very good about our capacity, given the amount that we have on our revolving line of credit as well as our expected free cash flow for the year. As you know, it's our seasonal high watermark in terms of borrowings just after the annual incentive payments in March. So that's expected. And the default coming out of the first quarter, of course, is to pay down debt.

But I think, clearly, as that kind of large cash outflow behind us, given our expected free cash flow for the rest of the year, we think that gives us plenty of opportunity to both continue to pay down our debt and to get back down, call it, to the 2x level, while also having capacity to repurchase shares to the extent that it's -- we think that, that's a good opportunity. And clearly, to the extent we can offset some of the dilution that comes from our share-based compensation programs. But as well for strategic tuck-in type M&A.

I think our perspective is that everything we do is kind of focused on our organic growth strategy, as we've talked about before, but that from time to time, it does make sense to buy when we think there are certain assets on the market that can give us a quicker entry point.

Technology is often an area where we see that opportunity. And to the extent that we see those opportunities, we feel very comfortable with our leverage, very comfortable with our cash flow to be able to execute on those and make sure we're bringing the talent into the organization that we need to in order to execute on our strategy.

Operator

Our next question comes from Josh Vogel of Sidoti.

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

A lot of my questions were covered, but maybe there's just another way to frame the pipeline of visibility conversation. You're seeing increases in the sales pipeline and the pace of signings and health care and education, but also a sales cycle that remains somewhat elongated. I'm just curious, given the recent conversions, does that [imply] some easing there relative to last year? And do you think that the cycle back to pre-pandemic [levels] by the second half of the year or perhaps even quicker, given how long clients were kind of sitting on their hands and maybe looking to rapidly reengage?

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

Josh, this is Jim. I'll start there. I think the thing that we saw probably more deferred than anything, there's probably 2 areas. One of them would be in Healthcare and some of the performance improvement areas, again, deferred while we were going through the worst of the pandemic. And in education, the thing that got the most deferred was the larger ERP projects. And as we've described, I think, in both cases, Healthcare and Education, you've seen the environment transition quite a bit.

I just think it was really hard to undertake -- for our clients -- were really hard to undertake those kind of large projects at a point in time when they weren't sure about their financial stability, they weren't sure about their own -- the bandwidth of their own people to take it on. And they just -- and acknowledge that a lot of it would probably have to be down remotely. You put it all together, and I think a lot of them just sorted through and said, you know what, this is urgent, but it's not that urgent. Let's wait a little bit. And that's what's kind of picking up right now.

I think in the case of the larger systems projects, there's a pretty high degree of coordination that needs to take place at our clients. Forget about us, it's our clients just to get these things effective. It's not like we come in and do everything. They've got to play a major role in it. And so I think you're seeing some of those as they kind of regroup themselves, they're getting back to the point where they can envision taking on those more complicated projects.

The same thing I think is happening in Healthcare right now when I talked to somebody today who basically said that the current year financials are actually going to look pretty good because the biggest hit we took was probably in the prior fixed fiscal year, but we're worried a lot more about the cost structure in the coming years. And that's what's forcing them to go back and begin to think through how do they reposition their business to be successful in the future.

So I think this is just -- to us, it was really easy to understand why these delays were taking place. But I think a lot of those reasons are now dissipating, and we're now beginning to see things open up, and people are more capable of addressing their future. And that, I think, is why we're seeing a pickup in the size and complexity and visibility into our pipeline.

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

That's good insights there. Thank you. The hiring of the 300 FTEs, I think, John, you said it would add about $10 million to revenue. Is that all going to be in Q2?

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

No, no. That's for the remaining 9 months of the year, Josh.

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

Okay. And I'm just thinking, you hired these FTEs. They're targeted specifically for this project. Do you think there's an opportunity, though, perhaps keep these people on your bench when the project is over hoping that you can deploy them to other engagements considering how the pipeline is building?

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

Josh, yes, just to clarify on that point. So they were -- they actually weren't hired for any specific project. They really are -- they really were brought on to broaden our capabilities from a managed services perspective. And they are going to be able to be deployed on some of the opportunities that we had in our pipeline before we acquired them as well as some specific work related to them. So absolutely, the plan is to build around this team and to continue to build out these capabilities.

We expect the team to grow, quite frankly. So based on the demand that we see in the market, we think that there's going to be a lot of opportunity for these employees to help serve our clients. And that when we start to look forward to 2022, we actually think this is going to be an area that's going to help drive organic growth within this business and that these employees will be a key part of that.

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

Understood. I appreciate the clarification around that. And just one last one. A lot of talk out there about an unprecedented and overwhelming wave of applications at colleges, especially as some have waived the SATs and ACTs. And I was just curious, is that a potential tailwind for your business?

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

I don't think so, Josh. I mean I think that's just -- first of all, it's not clear to me that the number of seats for all those applicants has really changed. And therefore, I think you may have a lot more applicants, but it doesn't necessarily transition into more revenue. It certainly is not a headwind, but I don't think it's going to be a tailwind either. I think there's just kind of an anomaly where we're at right now, where everyone's just trying to do the best they can to get in because there's so many uncertainties in terms of who's going to go back to the campus.

The higher branded places will have no problem, but everyone is thinking, I think that maybe I can apply to a place that I otherwise might not be able to get into it because of all the disruption is taking place. And time will tell whether that happens or not. But I don't think it's going to be that much of a differentiator. I think it's just going to be an odd statistic that sits out there for a while.

Operator

Our next question comes from Tobey Sommer of Truist Securities.

Tobey O'Brien Sommer - *Truist Securities, Inc., Research Division - MD*

A question for you on the education space. If President Biden's initiative to make community college and change some things in terms of education making that free. What would that -- those things that are on the table do for demand for your services, do you think?

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

Tobey, I think it remains to see what's going to happen there. I would not anticipate that having a big impact on our core client base, which is certainly the largest research universities and also maybe the top 200 or 300 ranked institutions. I think it has a big impact for people wanting to get an education that might not be able to afford to do it. But I think -- I don't think it's going to have a big impact on our business.

Operator

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

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

Thank you all 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

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