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PRESENTATION

Operator

Good afternoon, and welcome to Huron Consulting Group’s webcast to discuss financial results for the fourth quarter and full year 2022. (Operator Instructions) As a reminder, this conference call is being recorded.

Before we begin, I would like to point all of you up 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 reconciliations to the most comparable GAAP numbers.

And now I would like to turn the call over to Mark Hussey, Chief Executive Officer and President of Huron Consulting Group. Mr. Hussey, please go ahead.

C. Mark Hussey  Huron Consulting Group Inc. - President, CEO & Director

Good afternoon, and welcome to Huron Consulting Group’s Fourth Quarter and Full Year 2022 Earnings Call. With me today are John Kelly, our Chief Financial Officer; and Ronnie Dail, our Chief Operating Officer.

It’s a pleasure to be with you for my first earnings call as CEO, and it’s a tremendous honor to lead this great company. I greatly enjoyed working side by side with Jim Roth over the last 11 years. I want to thank him for his leadership and partnership, and I look forward to continuing to work with him on our Board and in his role serving our clients. I also look forward to engaging with all of you in the months and years ahead as we continue to build our company to create exceptional shareholder value.

Turning to our results. We achieved record revenues in the fourth quarter and full year 2022, growing revenues 26% and 25%, respectively. Revenue growth for both the fourth quarter and the full year was strong across all 3 operating segments, bolstered by continued growth in our Digital capability. Our Digital capability grew a record 41% in 2022 and Digital revenue reached nearly $0.5 billion. Our full year adjusted EBITDA margins improved 80 basis points over the prior year, reflecting solid progress toward our objective of returning to mid-teen EBITDA margins by 2025.

We believe the momentum we established in 2022 provides a solid foundation for continued growth and profitability as well as continued deployment of our cash flow to drive returns for our shareholders. Market demand remains solid in our Healthcare and Education businesses, strengthening our leading market positions in these large and challenged sectors of the economy. Our presence in the commercial industries continues to expand, led by our Digital capability, which represented 44% of our company-wide revenue in 2022. And our solid cash flow enabled us to repurchase 2 million shares in 2022 while maintaining a strong financial position.
Before I provide additional color on the fourth quarter and full year performance, let me highlight the progress we've made on our operating model transformation. When we announced our business realignment at the beginning of 2022, we believe the new operating model would strengthen our go-to-market strategy, better position Huron to integrate our deep industry expertise with our strong digital strategy and financial advisory capabilities and to drive efficiencies across our business. The financial results we announced today clearly reflect the benefits of our business realignment and a new incentive plan that accompanied our new operating model, which rewarded and reinforced accelerated growth, increased profitability and enhanced the collaborative behaviors of our team as we work in an even more unified platform.

Collaboration has always been a hallmark of Huron’s culture. And in our new operating model, that attribute has grown even stronger, helping us achieve our growth goals and further strengthening our competitive position in each of our markets. We routinely go to market in a unified manner across all our businesses, bringing the best teams and expertise together with the full extent of the capabilities needed to innovate and serve the comprehensive needs of our clients.

For Huron, our growth strategy and business realignment are the means through which we have achieved 2 critical outcomes, improved integration of our industry and capability expertise and more deeply embedding our digital offerings into our client engagements. We believe these outcomes will position us for further success in the market and continued growth and increased profitability for our business, which together will drive enhanced shareholder value.

Now I’ll discuss our fourth quarter and full year 2022 performance along with our expectations for 2023. On a full year basis, the Healthcare segment achieved record revenues of $535 million, increasing 20% over 2021. In the fourth quarter of 2022, Healthcare segment revenue grew 18% over the prior year quarter to $153 million, reflecting the strong demand for our offerings across our digital capabilities, revenue cycle managed services and performance improvement consulting. For the full year, in the health care industry, Digital revenue increased 44%, and Consulting and Managed Services revenue increased 12%.

Hospitals and health systems continue to face a challenging environment with increasing labor costs, reduced governmental funding and shifts in volume and sites of care. Many health care organizations face more limited operating cash flows and weakening financial positions, driven in part by labor and supply chain challenges as well as rising inflation and higher interest rates. These financial pressures come at a time when health systems need to invest more heavily in their business, including in technology and analytics to fuel long-term organizational growth and to respond to competitive pressures.

To address these headwinds, health care organizations are increasingly interested in pursuing a performance improvement-related initiatives, driving demand for our consulting, digital and managed services offerings. In the second half of 2022, we saw a steady increase in our sales funnel for our performance improvement offerings, and we expect that demand will continue into 2023 as our clients seek to address these challenges. In addition, health care providers are deploying new technologies to drive greater operational efficiencies while attempting to meet the increasing expectations of their consumers as the health care industry relies more heavily on digital interaction with its consumers, including a more comprehensive and simplified digital experience. Health systems are focused on developing enhanced analytic capabilities and the ability to provide innovative care delivery solutions to their patients.

The combination of our deep industry expertise, comprehensive consulting, digital and managed services offerings and a proven track record of delivering results for our clients positions us well to take advantage of these market challenges, which we believe will drive continued demand for our business.

Turning now to the Education segment. Annual revenues in the segment grew 48% compared to 2021, achieving record revenues of $360 million. In the fourth quarter of 2022, Education segment revenues increased 44% over the prior year quarter to $97 million, driven by the strength in demand for our offerings across the segment. For the full year, in the education industry, Digital revenue increased 51%, and Consulting and Managed Services revenue increased 46%. Our Education business historically achieved consistent strong revenue growth. Demand in 2022 was widespread across all our digital research, student and strategy and operations offerings, and we’re pleased with how our services are resonating in the market amidst the significant changes taking place in the higher education industry.
Similar to our health care clients, higher education institutions face increased financial pressures, driven by rising inflation and higher interest rates, labor pressures, mixed enrollment trends and declining endowment returns. Our clients seek to balance operational and capital spending decisions, particularly as it relates to investments to improve the student experience, the changing needs of facilities and infrastructure, continued financial pressures and more broadly, a need to dramatically enhance their digital interaction with their college and university communities. The need to manage costs while investing in areas of growth is further exacerbated by the uncertain macro environment. And we believe that these challenges will persist for the foreseeable future, driving continued demand for our comprehensive set of industry-focused solutions.

Finally, we’re encouraged by the continued strong growth of our research business. Huron has a unique market position in helping our clients manage their research enterprises. The federal government provides over $50 billion in research funding annually to U.S. universities and hospitals to conduct research, and that’s only one source of research funding for our clients. Huron has the both comprehensive set of offerings in the country, helping our clients manage the many complexities and risks associated with research administration. Our comprehensive research-focused consulting, digital and managed services offerings represent over 35% of our Education revenues in 2022, and we anticipate significant growth in the coming years.

Turning to the Commercial segment. On a full year basis, segment revenues grew 9% year-over-year to $238 million. Excluding the life sciences business, which was divested in Q4 of 2021, Commercial segment revenues grew 18% year-over-year. In the fourth quarter of 2022, Commercial segment revenues grew 24% over the prior year quarter to $64 million, primarily attributable to strong demand for our financial advisory and digital offerings.

Led by our digital offerings, we continue to expand our presence in the commercial industries, particularly in the financial services and the energy and utility sectors. The growing portfolio of technology and analytics offerings delivered by our highly talented team have gained market share in a competitive landscape. We continue to invest in expanding our offerings to address the rapidly changing needs of a broad client base, and those investments have delivered strong returns for Huron. We will continue to develop our global digital, technology and analytics platform in conjunction with our consulting and managed services offerings to address the growing needs of our clients.

Let me also briefly touch on our financial advisory and strategy offerings. In the fourth quarter, we saw a resurgence in demand for our restructuring and turnaround offerings as the uncertain macro environment, turbulent capital markets, high inflation and high interest rates caused disruption for our clients. As we look ahead, we believe that we’re well positioned to help both healthy organizations and those in distress navigate the best path forward, whether that be establishing a new growth strategy or more efficiently operating their business.

Let me now turn to our expectations and guidance for 2023. Our revenue guidance for the year is $1.22 billion to $1.28 billion. We also expect adjusted EBITDA in a range of 12% to 12.5% of revenues, and adjusted diluted earnings per share of $3.75 to $4.25. Company-wide, we’re guiding to 10% organic revenue growth at the midpoint for 2023. We achieved significant growth in 2022, and we believe that the demand that we experienced in 2022 will continue into 2023. In terms of margins, at the midpoint of our 2023 guidance, we expect a 65 basis point improvement over 2022, building off the 80 basis point improvement we achieved in 2022. We remain committed to achieving mid-teens percent adjusted EBITDA margins, consistent with our long-term financial objectives. We believe we will continue to drive improved profitability and we’ll do so while further investing in areas of our business with the greatest growth potential.

Finally, let me reiterate that 2022 is a record year for Huron and the performance that we achieved was only possible because of our incredibly talented team and their commitment to our clients, to our company and to one another. Day in and day out, they continue to push us to be better, identifying new ways to collaborate and going to market, innovating new offerings for our clients delivered with the highest quality, and supporting the growth and development of our business and our people.

In closing, let me remind you of our areas of focus that we believe will help us achieve our strategic and financial objectives, accelerating growth in our core end markets of health care and education, expanding our growing commercial business, advancing our global digital technology and analytics platform, broadening our offerings and capabilities, and building a more sustainable base of revenue to drive consistent growth. We’re off to a strong start in 2023, building on the momentum that led to such a strong start in 2022. We’re excited about our prospects for achieving our revenue and profitability goals for the year as we strengthen our competitive position and take advantage of the market opportunities that lie ahead.
And 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, Mark, 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-K and Investor Relations page on the Huron website have reconciliations of these non-GAAP measures to the most comparable GAAP measures, along with the discussion of why management uses these non-GAAP measures, of why management believes they provide useful information to investors regarding our financial condition and operating results.

Now let me walk you through some of the key financial results for the fourth quarter and full year 2022. Revenues for the fourth quarter of 2022 were a record $313.7 million, up 26.3% from $248.3 million in the same quarter of 2021. The increase in revenues in the quarter was driven by strong growth across all 3 operating segments and across our Digital, Consulting and Managed Services capabilities.

For full year 2022, revenue was $1.132 billion, up 25% from $905.6 million in 2021. Similar to the quarter results, we achieved record company-wide revenues in 2022, reflecting the ongoing demand for our portfolio of offerings across segments in our strategically aligned operating model. Net income for the fourth quarter of 2022 was $17.1 million or $0.85 per diluted share compared to net income of $31.1 million or $1.45 per diluted share in the fourth quarter of 2021. As a reminder, Q4 2021 net income includes a $23.7 million gain, net of tax, from the sale of our life sciences business in the fourth quarter of 2021.

For full year 2022, net income was $75.6 million or $3.64 per diluted share. This compares to net income of $63 million or $2.89 per diluted share in 2021. As a reminder, 2022 net income includes an unrealized gain of $19.8 million, net of tax, recognized in Q1 2022 on the company's investment in a hospital at home company. And results for full year 2021 include the aforementioned $23.7 million gain, net of tax, from the sale of the company's life sciences business in the fourth quarter of 2021.

Our effective income tax rate in the fourth quarter of 2022 was 26.9%, which approximates our statutory rate, inclusive of state income taxes and reflects certain nondeductible expense items largely offset by the impact of nontaxable gains on our investments used to fund our deferred compensation liability. On a full year basis, our effective income tax rate for 2022 was 30.4%, which was less favorable than the statutory rate, inclusive of state income taxes, primarily due to the impact of nondeductible losses on our investments used to fund our deferred compensation liability and certain nondeductible expense items.

Adjusted EBITDA was $39 million in Q4 2022 or 12.4% of revenues compared to $29.3 million in Q4 2021 or 11.8% of revenues. For full year 2022, adjusted EBITDA as a percentage of revenues increased 80 basis points to 11.6% compared to 10.8% in 2021. The increase in full year adjusted EBITDA reflects higher consultant utilization and a reduction of corporate SG&A expense as a percentage of revenues in 2022 compared to 2021, partially offset by continued investment in the growth of our business. Adjusted net income for the fourth quarter of 2022 was $22.6 million or $1.12 per diluted share compared to $17.2 million or $0.80 per diluted share in the fourth quarter of 2021. For the full year 2022 adjusted net income was $71.1 million or $3.43 per diluted share compared to $56.9 million or $2.61 per diluted share in 2021.

Now I'll make a few comments about the performance of each of our operating segments. The Healthcare segment generated 49% of total company revenues during the fourth quarter of 2022 and posted revenues of $153.3 million, up $23.9 million or 18.5% from the fourth quarter of 2021. Revenues for the fourth quarter of 2022 included $3 million from our acquisition of Perception Health, which was completed in December of 2021. The increase in revenues in the quarter was driven by strong demand for our digital, revenue cycle managed services and performance improvement consulting offerings. On a full year basis, Healthcare revenue increased 20.3% to $535 million, also driven by strong demand for our digital offerings as well as our revenue cycle managed services and performance improvement consulting offerings.

Operating income margin for Healthcare was 25.9% for Q4 2022 compared to 24.6% for the same quarter in 2021. The quarter-over-quarter increase in margin was primarily due to revenue growth that outpaced the increase in compensation costs for our revenue-generating professionals, partially offset by an increase in contractor expense. On a full year basis, operating income margin was 24.5% compared to 26.6% in 2021. The decrease in operating income margin year-over-year was primarily driven by the exceptionally strong growth and corresponding increased mix of our digital
revenue in 2022, which typically generates a lower margin than our health care consulting business. Our digital offerings in the health care industry represents an opportunity for continued above-average revenue and operating income growth over the long term.

The Education segment generated 31% of total company revenues during the fourth quarter of 2022 and posted strong revenues of $96.6 million, up $29.3 million or 43.5% from the fourth quarter of 2021. Revenues for the fourth quarter of 2022 included the inorganic contributions of $1.8 million from our acquisition of Whiteboard, which was completed on December 1, 2021. The increase in revenues in the quarter was driven by strong demand across our portfolio of digital, consulting and managed services offerings. On a full year basis, Education segment revenues grew 48.5% year-over-year driven by strong demand for our strategy and operations, research, digital and student offerings. The operating income margin for Education was 20.8% for Q4 2022 compared to 22.6% for the same quarter in 2021. The quarter-over-quarter decrease in margin primarily reflects our continued investments in the growth capacity of this business during 2022. On a full year basis, operating income margin was 21.9% compared to 21.6% in 2021.

The Commercial segment generated 20% of total company revenues during the fourth quarter of 2022 and posted revenues of $63.8 million, up $12.2 million or 23.7% from the fourth quarter of 2021. Revenues for the fourth quarter of 2022 included $700,000 of inorganic revenue from our acquisition of AIMDATA, which was completed in January of 2022. The quarter-over-quarter increase in revenue was primarily attributable to strong demand for our financial advisory and digital offerings.

On a full year basis, Commercial segment revenues were $237.6 million, and grew 8.8% year-over-year, driven by strong demand for our digital and financial advisory offerings, partially offset by the impact of the divestiture of our life sciences business in the fourth quarter of 2021. Excluding the revenue generated by our life sciences business in 2021 and the revenue from the acquisition of AIMDATA in 2022, Commercial revenues increased 16.4% in 2022 compared to 2021. The operating income margin for the Commercial segment was 18.4% for Q4 2022 compared to 10% for the same quarter in 2021. The quarter-over-quarter margin increase was mainly due to the decrease in restructuring charges, which primarily related to the divestiture of the life sciences business in 2021, partially offset by an increase in compensation-related costs for our revenue-generating professionals. On a full year basis, operating income margin was 21.1% compared to 15.7% in 2021, primarily driven by revenue growth that outpaced the increase in compensation-related costs for our revenue-generating professionals and the decrease in restructuring charges.

Other corporate expenses not allocated at the segment level were $41 million in Q4 2022 compared with $36.9 million in Q4 2021. Other corporate expenses in both the fourth quarter of 2022 and the fourth quarter of 2021 included approximately $1.8 million of expense related to the increase in liability of our deferred compensation plan, which is offset by the investment gain and the assets used to fund that plan reflected in other income. The increase in corporate expenses in the fourth quarter of 2022 was primarily due to increases in compensation costs for our support personnel, software license expenses and travel-related expenses, partially offset by decreases in legal expenses and restructuring charges.

On a full year basis, corporate expenses not allocated at the segment level increased to $140.1 million, which included a $6.9 million reduction of expense related to the deferred compensation plan compared with $131.5 million in 2021, which included $4.8 million of expense related to the deferred compensation plan. Excluding the impact of the deferred compensation plan in both periods, unallocated corporate expenses increased $20.3 million, primarily due to increased compensation costs for our support personnel as well as increases in data hosting and software license costs and practice administration and meeting expenses and other travel-related expenses as we return to more in-person events. These increases in costs were partially offset by decreases in legal costs and restructuring charges. Similarly, excluding the impact of the deferred compensation plan, unallocated corporate expenses as a percentage of revenue decreased to 13% in 2022 from 14% in 2021.

Now turning to the balance sheet and cash flows. Total debt as of December 31, 2022, was $290 million and consisted entirely of our senior bank debt. We finished the year with cash of $12 million for net debt of $278 million. This was a $54 million decrease in net debt compared to Q3 2022. The fourth quarter included $23.5 million of share repurchases or approximately 331,000 shares. Our leverage ratio, as defined in our senior bank agreement, was approximately 1.9x adjusted EBITDA as of December 31, 2022, compared to 1.7x adjusted EBITDA as of December 31, 2021.

Cash flow from operations for 2022 was $85 million, and we used $24 million of our cash to invest in capital expenditures, inclusive of internally developed software costs, resulting in free cash flow of $61 million. During 2022, we deployed $121 million to repurchase approximately 2 million shares, representing 9.3% of our outstanding shares as of the beginning of the year, and we used $3 million for strategic tuck-in acquisitions. In the fourth quarter of 2022, our Board of Directors authorized an extension of the 2020 share repurchase program through December 31, 2023, and
increased the authorized share repurchase amount by another $100 million. As of December 31, 2022, $109 million remained available for share repurchases under our current authorization.

DSO came in at 77 days for the fourth quarter of 2022 compared to 85 days for the third quarter of 2022 and 69 days for the fourth quarter of 2021. The decrease in DSO during the fourth quarter, when compared to the third quarter, reflects the increase in cash collections of working capital, including uncertain larger health care and education projects during the quarter, in accordance with contractual payment schedules.

We entered 2023 with a strong balance sheet and cash flows during a period of uncertainty in the broader macro environment. In the fourth quarter of 2022, we amended and restated our credit facility on favorable terms to provide additional flexibility to support the anticipated growth in our business as well as our capital deployment strategy. We remain committed to deploying capital in a balanced way, including returning capital to shareholders and executing strategic tuck-in acquisitions.

Finally, let me turn to our expectations and guidance for 2023. For the full year 2023, we anticipate revenues before reimbursable expenses in a range of $1.22 billion to $1.28 billion, adjusted EBITDA in a range of 12% to 12.5% of revenues, and adjusted EPS in a range of $3.75 to $4.25. We expect cash flows from operations to be in the range of $130 million to $150 million. Capital expenditures are expected to be approximately $30 million to $35 million, inclusive of cost to develop our market-facing products and analytical tools, and free cash flows are expected to be in a range of $95 million to $115 million net of cash taxes and interest and excluding noncash stock compensation. Weighted average diluted share count for 2023 is expected to be in the range of 19.5 million to 20 million.

Finally, with respect to taxes, you should assume an effective tax rate in the range of 28% to 30%, which comprises the federal tax rate of 21%, a blended state tax rate of 5% to 6% and incremental tax expense related to certain nondeductible expense items.

Let me add some color to our guidance starting with revenue. The midpoint of the revenue range reflects 10% revenue growth over 2022 revenue. With regard to our Healthcare industry segment, we expect high single-digit revenue growth for the full year 2023, and we expect operating margins will be in the range of approximately 24% to 26%. In the Education segment, we expect low double-digit percentage revenue growth for the full year 2023, and we expect operating margins will be in a range of approximately 22% to 24%. In the Commercial segment, we expect to see low double-digit percentage revenue growth for 2023, and we expect our operating margins in this segment to be in a range of approximately 21% to 23%. We expect unallocated corporate SG&A to be in the upper $30 million range on a quarterly basis in 2023, reflecting our continued growth in normalized travel and meeting expenses.

Also, in the first quarter, consistent with prior years, we note the following items as it relates to expenses. The reset of wage basis for FICA and our 401(k) match, our annual merit and promotion wage increases go into effect on January 1 and an increase in stock compensation expense for restricted stock awards that will be granted in March to retirement-eligible employees. Based on these factors, we anticipate approximately 15% to 20% of our full year adjusted EBITDA and full year adjusted EPS to be generated during the first quarter. As a closing reminder, with respect to 2023 adjusted EBITDA, adjusted net income, adjusted EPS, there are several items that you will 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 walk you through these reconciliations.

Thanks, everyone. I would now like to open the call to questions. Operator?
I want to start out in the health care-related businesses. How would you compare and contrast growth in -- and the opportunity, sort of demand signals you're seeing, for the PI service versus the other services that you go to market with for those customers?

C. Mark Hussey - Huron Consulting Group Inc. - President, CEO & Director

Tobey, it's Mark. I think you would prioritize that digital and performance improvement is very often tied together. And then increasingly, it is going to be outside of that in terms of some of the other areas that prior to our operating model had not perhaps been in the Healthcare segment. So really, I would say, both a digital and a performance improvement are the main drivers of the Healthcare segment.

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

Yes, this is John. I'll just add some color that from a -- we talked last call at the end of the third quarter about from a pipeline perspective and then backlog perspective, we had a really strong quarter of sales in the third quarter last year, and that continued into the fourth quarter, and a lot of that was performance improvement. And I think that, that reflected some of the financial pressures that our clients are under from a financial perspective right now that are really our performance improvement offerings are quite responsive, too. So I think we've continued to see strong demand there, and we expect that to be a key driver in 2023.

And then for -- like Mark said, from a digital perspective, we really haven't seen a slowdown in our clients investing in their digital infrastructure. And I think that's for a lot of reasons, including just a focus on operational efficiency, a focus on patient access and engagement with consumers. And then also the risks are out there with data security at this point really wanting to upgrade to get to a more secure cloud-based environment.

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

That's helpful. Given the performance last year and your midpoint of your guidance ranges for this year, how do you feel like you're set up to hit your multiyear financial goals laid out at Investor Day?

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

Tobey, we -- I think we feel very good about those multiyear goals. What we described at our Investor Day was the expectation that over the 5-year period starting in 2022 that we'd be able to grow the top line at a compound growth rate of 10%. And so we're able to start off at a pace that was faster than that in 2022 with a 25% growth. And as you can see based on our guidance for 2023, we're confident that we're going to be able to continue that growth trajectory in this year with guidance that was aligned with what we talked about in our Investor Day. And there's nothing, as we look out over the longer term, that gives us hesitation. In fact, I think we continue to feel optimistic about our opportunities to grow at a pace faster than what we talked about at that Investor Day.

C. Mark Hussey - Huron Consulting Group Inc. - President, CEO & Director

Yes. And Tobey, the thing I would add to that, that's helping. I mean, certainly, the new operating model has really brought our go-to-market together to be more effective in driving solutions to clients that really are reflecting the full range of what we do, that's certainly a positive. I think from a margin point of view, again, the incentive plan and the model that we have now that is focused on a much more integrated global enterprise, gives us a lot of opportunities for driving increased efficiency.

And then the last comment I'd make about our portfolio. When you look across everything we do today, there really is no one single thread that's accounting for everything. We've got a very broad base of demand across a lot of different things that we do, and that just gives a lot more ways to win and have stability across the business. So we have a great degree of confidence in our ability to achieve the objectives we set forth.
Tobey O'Brien Sommer - Truist Securities, Inc., Research Division - MD

And last one for me. With the rapid growth, the generation of cash and sort of modest debt since it feels like the company is just sort of on its toes right now, on front foot, so to speak, do you see a need to or an opportunity to add something via acquisition maybe in the digital realm to keep the momentum going?

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

We're always looking at the market. And I think we talked about, again, going back to our Investor Day from last March that accretive M&A is part of our longer-term growth strategy. And to your point, I think the financial results and cash flow and strong balance sheet are all factors that enable us to have the capacity to do that. Our focus remains on our organic growth. And so when we do scan the market from an M&A perspective, we're really looking at things that we feel like when we add them to the portfolio, will further fuel that organic growth in the out years after the acquisition. And so that's the primary filter from a financial perspective, we look at from an M&A perspective.

C. Mark Hussey - Huron Consulting Group Inc. - President, CEO & Director

And maybe the comment I'll add is that while we didn't do that much in a later part of 2022, it was not because we weren't looking. We're continually in the market, and especially the track record that we have in working with various partners that end up joining us has been a great methodology of increasing organic growth in a very low cost way. So if there's something a little bit more transformative, obviously, I think we're very -- you can see from our investor objectives. We're very careful about focusing on returns for shareholders. Not to say that we won't do it, but I think we have a great discipline on what we think will create value.

Operator

Our next question comes from the line of Andrew Nicholas of William Blair & Company.

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

I wanted to touch on headcount, first and foremost. It looks like Healthcare head count was up pretty significantly quarter-over-quarter, if my numbers are correct there. Just curious if you could spend some time on where that hiring is concentrated, if it is more kind of some catch-up hiring to capture some of this performance improvement, demand acceleration, and then maybe if you could speak to headcount growth expectations for 2023 and your ability to kind of service the current pipeline.

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

Sure, Andrew, this is John. First, at the metrics that you asked about the headcount within our health care business, that's primarily our managed services headcount within Healthcare, where we've been continuing to scale up our personnel related to client interest in that area. That's the primary driver behind that metric. But beyond that, we're absolutely also hiring from a performance improvement perspective, just based on the demand that we see in the market. If you'll recall, if you go back to earlier in the year, that was an area where the utilization was a little bit lighter than our historical norms, and that really ramped up as we got into the fourth quarter. So the step 1 was to make sure that we're utilizing our current resources. But now as we move forward, we're certainly in the market hiring from a head count perspective in that part of the business.

I'd say, overall, when you look at 2023, I think the general rule of thumb historically would be to say that head count tends to fluctuate in line with revenue. And while that's true, I think we did do a lot of capacity building in 2022. So my expectation is that you're going to see us use some of that capacity that we built in 2022 first, and then we will be adding additional heads beyond that to hit our revenue goals. So I think the relationship
will be that the head count growth will likely outpace the head count -- the revenue growth will likely outpace the head count growth in 2023 for that reason.

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

Makes sense. I know that's kind of the way that you've been describing it the past couple of quarters, so I just wanted to make sure that was still the plan. And then for my follow-up on Commercial, really, really strong growth both sequentially and year-over-year. You touched on it a little bit, but I was hoping you could spend a bit more time on the puts and takes kind of under the hood there.

Was restructuring or kind of the legacy business advisory business especially strong in the quarter? Is the strategy capability weaker or strengthening a little bit? Just kind of if you could unpack the pieces of growth a bit more in the fourth quarter and how you're thinking about next year, that would be helpful.

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

Sure, Andrew. This is John, again. I'd say that the primary areas of strength in that growth in the fourth quarter were our commercial digital offerings as well as the restructuring and turnaround/financial advisory offerings in the commercial industry. Starting with the latter one, from a financial advisory perspective, things got very busy, I'd say, starting really towards the end of the third quarter. But that continued at a very high pace in the fourth quarter. And so that team was very busy and surpassed really our expectations in terms of the revenue during the fourth quarter. The commercial digital team has really had a full year of tremendous growth, and that -- we saw that continue into the fourth quarter.

From a strategy perspective, I'd say that, that was more steady during the quarter and relatively steady with the prior year. And I think as we look at that part of the business, I think some of the uncertainty that we've seen in the macro has probably been a little bit of a headwind for that business throughout 2022 and into the fourth quarter. But as we look towards 2023, we're actually feeling good about the pipeline for that business as well and for their ability to add to our growth in 2023.

Operator

Our next question comes from the line of Bill Sutherland of Benchmark.

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

I wanted to just follow up on that Commercial segment question with -- just wanted to see how Innosight's doing. That was, I think, the only piece in the puzzle that was having a little bit of a headwind.

C. Mark Hussey - Huron Consulting Group Inc. - President, CEO & Director

Yes, Bill, this is Mark. Innosight had a more flat end of the year. And as John said, some of the macro uncertainty played a little bit into that, but the outlook is good for Innosight. They've got good strength across their portfolio. And so I think I have good expectations for Innosight in terms of their ability to continue driving growth and expanding the business.

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

Great. In education, do you -- I'm kind of interested in the constraints to growth, if there are any. I mean just based on the low double-digit guide, you can -- I mean is hiring an issue, a?, b, if the client is kind of in a place where they can work at the level of implementation that you might want to do for them. And then what's the status of the student system cycle? Is that really starting to make a difference in your backlog?
C. Mark Hussey - Huron Consulting Group Inc. - President, CEO & Director

So Bill, let me try to take the beginning of the question. I'll have John jump in as well. I don't -- 48%, I'd love to say there's a new growth rate, but -- and it really was broad across everything we do. So it really wasn't just in the implementation areas. And we certainly saw the digital number, which we talked about, was also equally strong. Hiring has not been an issue for us. I mean I'm not going to sit here and say, we aren't working really hard at that level of growth to keep up with what we're doing, but we're able to do it.

And so as we look ahead, I think, again, just -- it's a reflection of some of the challenges that are going on in the industry. And there's -- the breadth, I think, of that portfolio is perhaps the strength, is that we do so many different things for our education clients that we are serving at all different ranges of the market. And then we're just really well positioned to continue to have that growth. Student life cycle, again, continues to have good progress and momentum. And I think it's just got a good trajectory outlook, but that really was not necessarily the leader across everything we did this year, but it has a tremendously positive outlook.

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

Yes. And I'll add, Bill, if you look at the guidance range, at the midpoint, we've called the low double-digit percentage growth for education, which probably is just acknowledging that 48% was exceptional for the year and being a little bit more measured, particularly this early in the year about the outlook for 2023. But if you were to think about the higher end of the revenue guidance range, that would certainly be the scenario where probably isn't going to be 48% again, but where we have stronger growth coming from that education team just based on the demand that we see within that market.

And from a student perspective, we are seeing nice growth in that area. I know that, that historically has been an area where -- it's been taking a little bit of time, I think, just in terms of the buying cycle for clients. And oftentimes, the student technology implementation is on the back end of the finance and HR and limitations. But we're now getting to the point in the cycle where we're seeing both at some of our large research institutions. Our clients now implementing those tools as well as a growing business that we have with some of the smaller institutions in that space. So we feel good about our progress in that part of the business, and we continue to believe if you look out over the next few years that that's going to be a major area of growth for Huron.

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

And then just one more. I just got off a call with a health care IT company that's talking about the client base, the hospitals [mainly], and essentially just some added restraint in how they're managing capital allocation and, in some cases, freezes. And I know that this -- [UPI] is the kind of thing they want to do right now because of the ROI. But I'm thinking about more of your cloud implementations there and where there may not be a rapid ROI. I'm just curious if you're seeing any holdbacks in terms of those projects.

C. Mark Hussey - Huron Consulting Group Inc. - President, CEO & Director

Bill, we have not seen a major pullback. We've seen a relatively steady amount of demand in that area. And so it has been beyond just ERP. It's also been in the sales force area. It's really -- in the health care industry right now, you've got a lot of hospitals and health systems that are really hurting from a margin -- all the margin pressures that have happened.

But you have others who are actually playing offense and investing in their business to continue to address the competitive pressures that they have from many different angles within the market. So at this point, I would say there's nothing that leads us to believe that we're not going to continue to see a relatively solid, steady stream of demand going forward.
Kevin Mark Steinke - Barrington Research Associates, Inc., Research Division - MD

I wanted to ask about the adjusted EBITDA margin guidance for 2023, implying expansion in the range of 40 to 90 basis points, and maybe John, what's baked into that in terms of, I think, you mentioned some increasing cost in terms of travel and the resumption of more normal activities, as well as what sort of investments you're making and how that all factors into the margin outlook?

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

Sure, Kevin. It's John. I'm happy to take that one. I think when we look at that range of margin expansion for the year, I think the largest positive drivers are going to be continued increased utilization. I think as we size that up in our plans for the year, we view that to be a 50 to 75 basis point margin opportunity alone from a utilization perspective. And then also, as we continue to grow, we feel good about the corporate infrastructure that we've built and that there's good opportunity to scale that as well and to drive more of those segment-level operating income dollars down to the bottom line. And so that's probably another 50 to 75 basis point opportunity.

I think that going the other direction, there's a couple of factors. One, we do continue to make investments in the business. I think you'll see us make some OpEx investments in some of our products and analytical tools this year as we continue to build those out both from a stand-alone recurring revenue sales perspective, but also to help enable our consulting and managed services solutions. And then also, our Digital business has been growing at a very fast pace. And as we've talked about in previous calls, our Digital margins are probably more in the 20% range. Our consulting, managed services margins tend to blend in the upper 20% range. And so with that faster pace of growth that we got from Digital, that creates a little bit of mix pressure. But the net of all that is our anticipation of the 40 to 90 basis points of improvement that you referenced.

C. Mark Hussey - Huron Consulting Group Inc. - President, CEO & Director

Kevin, I'm going to add one thing to what John said, which is well-articulated. And that is the change we made in our incentive plan in 2022, which, for the first time, broke out part of the bonus compensation to be tied to margin and improvement. And so it's changed to some degree, the culture around pricing, around contribution margins and just the tightening up of the business in many different areas. And that is a tailwind that I think will benefit us as we come into the year. That really is not clearly reflected in what John said. So we think that gives us great confidence in our ability to achieve our EBITDA margin guidance.

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

Okay. Great. I just also wanted to ask about -- I'm sorry if I missed it earlier, but there is a significant spike in the utilization rate on the consulting side in the fourth quarter, and you called out there an improvement in utilization being a driver of margin expansion this year. It looks like digital still has room to come up, but just what kind of led to that spike on the consulting side? And does that kind of more normalize into the 70s? Or is that rate more sustainable?

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

So that spike that you saw in the fourth quarter really came from 2 primary areas that came from our performance improvement consulting area within health care and then from the financial advisory area really across the business. So that's what really drove it. I think from a longer-term perspective, it's probably reasonable to think about it on the consulting side. It's more in the upper 70s. The reality is, though, we weren't operating there the full year. So we're looking at the opportunity to expand margins on a full year basis, that remains a significant opportunity for us.
On the Digital side, the U.S. utilization on the Digital team was actually in the upper 70s during the fourth quarter. And the overall metric was brought lower by our global resources and particularly kind of at the more junior levels there. And what that reflects is the investments we've been making in the back half of the year. So we've been onboarding a significant number of junior consultants in our global operations that we expect to become big enablers of margin expansion in 2023, but it was a little bit of a headwind to the metric and to margins in 2022.

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

Okay. Great. And then just lastly, I wanted to ask about pricing. And I know there's been some inflationary headwinds in terms of compensation, but just your ability to mitigate that with price increases. And is that also a factor in your ability to improve margins going forward?

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

Yes, Kevin, it's John again. From an inflation perspective, I'd say we saw the most pressure in 2021. And I think that, that began to normalize throughout 2022, and we expect that to continue into 2023. Even with some of the pressure that we saw in 2021 and residual pressure thereafter, we have been successful at passing that through in terms of our rates and our projects. So we feel good about that. I think some of the challenges we had in 2021 and earlier in 2022 was really just sometimes the timing lag between client pricing and the labor impact. But I think that we're expecting that to be, from an inflationary perspective, more of a neutral in 2023.

If you look at that margin guide and you look towards the upper end, I think there is opportunity from a pricing perspective, even beyond kind of the inflation aspect of things, and that's something that we're working on and where we think that there's potential for upside. And if we look back at the end of the year, we were able to deliver more at the upper end of that range. I get a feeling pricing would be something that contributed to that improvement.

Operator

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

C. Mark Hussey - Huron Consulting Group Inc. - President, CEO & Director

Thank you for spending time with us this afternoon, and we look forward to speaking with you again in May when we announce our first quarter results. Have a good evening.

Operator

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