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HURN.OQ - Q2 2026 Huron Consulting Group Inc Earnings Call

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CORPORATE PARTICIPANTS

C. Mark Hussey *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

John Kelly *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

CONFERENCE CALL PARTICIPANTS

Andrew Nicholas *William Blair Capital Partners - Analyst*

Tobey Sommer *Suntrust Robinson Humphrey Capital Markets - Equity Analyst*

Bill Sutherland *Benchmark Company LLC - Analyst*

Mark Hussey

Kevin Steinke *Barrington Research Associates Inc - Analyst*

Steven Wahrhaftig *Wedbush Securities - Analyst*

PRESENTATION

Operator

Good afternoon and welcome to Huron Consulting Group's webcast to discuss financial results for the second quarter of 2026. (Operator Instructions) As a reminder, this conference call is being recorded.

Before we begin, I would like to point all of you to the disclosure at the end of the company's news release for information about any forward-looking statements that may be made or discussed on this call.

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

The company will be discussing one or more non-GAAP financial measures. Please look at the earnings release and on Huron's website for all of the disclosures required by the SEC, including reconciliation to the most comparable GAAP numbers.

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

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

Good afternoon and welcome to Huron Consulting Group's second-quarter 2026 earnings call. With me today are John Kelly, our Chief Financial Officer; and Ronnie Dail, our Chief Operating Officer.

Led by strong organic growth across all three operating segments, we achieved record revenues before reimbursable expenses, or RBR, in the second quarter of 2026, increasing 16% compared to the second quarter of 2025. That included record RBR across both our consulting, managed services, and our digital capabilities.

We're pleased with this meaningful step-up in our RBR growth trajectory, our continued margin expansion, plus cash flow from operations delivered in the quarter.

Additionally, client bookings were up across all three segments during the first half of the year, with an acceleration during the second quarter.

Our strong first-half performance, coupled with the continued strength of our backlog and pipeline, reinforce our confidence, increasing our full-year RBR and earnings guidance, building upon our strong track record of consistent growth and margin expansion since 2021.

Before I turn to our second-quarter performance, let me provide some additional insights on how AI is creating growth opportunities and adding value to our business.

Increasingly, organizations are turning to Huron to understand how the rapidly evolving AI and technology landscape drive growth and operational improvement. Our teams are focused on helping clients address critical business priorities while executing shoulder to shoulder with them to integrate technology, including frontier AI models, and to redesign workflows and operating processes to help drive and sustain tangible outcomes and improve financial returns.

AI is driving demand for our digital services. In the first half of 2026, total bookings for our digital capability increased by more than 20% compared to the same period a year ago, and greater than 60% of those bookings have either direct AI scope for our clients but will have delivery that is significantly enabled by our AI tools.

This is a significant increase in mix as such projects represented approximately 35% of our total bookings in the first half of 2025.

We're increasingly confident that AI represents a significant revenue growth opportunity for our digital capability, continue to embed our deep industry expertise and proprietary data and insights into our AI-enabled solutions, strengthening the differentiation of our offerings and enhancing tangible outcomes delivered to our clients.

One good example of how AI is driving value in our healthcare business is our clinical intelligent automation solution, which gives healthcare organizations a scalable way to combine their trusted data with Huron's proprietary data and expertise to drive clearer decisions and stronger financial performance.

Specifically, this AI-enabled tool captures our proprietary data and insights, analytic methods, consulting playbooks. And it compresses the time to deliver insightful recommendations for clinical-related performance improvement opportunities to just hours rather than days or weeks.

As a result, we're able to identify even greater financial benefits even faster for our clients, creating new and expanded opportunities for our implementation services and increasing both our revenue and margin opportunities.

AI continues to expand our addressable market as we offer new innovative AI services and solutions to our clients, both our own proprietary solutions as well as those we deliver with our technology partners, such as Anthropic, Microsoft, and AWS.

Those engagements range from AI strategy, governance, and data modernization via pilots, via implementation, and managed services via point solutions and end-to-end transformation. Our views on AI and its potential impact on Huron remain bullish, as we believe AI will prove to be a significant contributor to our future growth.

We're confident that our collective strategic, financial, operational, and digital offerings, all enabled by AI, will continue to yield positive revenue growth and margin expansion, as evidenced by our continued strong backlog and pipeline.

Now, I'll share some additional insight into your second-quarter performance.

In the healthcare segment, second quarter RBR grew 17% over the prior year quarter, reflecting strong demand for our healthcare managed services, performance improvement, strategy, financial advisory, and digital offerings, as well as incremental RBR from our acquisitions.

Excluding the impact of the acquisitions, organic growth for the healthcare segment was 12% in Q2 2026 compared to Q2 2025.

A significant portion of the healthcare provider market continues to be financially challenged, which in turn leads to continued growth tailwinds for our business. The OBBBA legislation is estimated to reduce federal healthcare spending by over $1 trillion over the next 10 years.

The more meaningful regulations are only beginning to take effect for hospitals and health systems. As these new regulations take effect, we expect strong demand for our portfolio of offerings to continue, as many organizations assess the likely financial and operational impacts on their businesses into 2027 and beyond.

In combination with the ongoing trends of labor, supplies, and pharmaceutical costs that are rising faster than reimbursements, we believe the operating environment for the healthcare industry will yield solid demand from our performance improvement, strategy, digital, financial advisory, and managed services offerings, which we expect will continue to provide significant growth opportunities in years ahead.

In addition to strengthening our consulting offerings, we've also seen strong growth in our healthcare managed services capability, which grew 64% in Q2 2026 compared to Q2 2025 led by 43% organic growth. Clients are increasingly turning to Huron for managed services because of our differentiated expertise, our consistent delivery of financial benefit, and our continued investments in AI and automation.

Managed services business is built upon delivering increased net revenue to our clients, higher cash flow yield, greater patient throughput, and improved patient collections.

Like the majority of our performance improvement offerings, our pricing arrangements for managed services are designed around outcome-based models. Proving results are driving both strength and demand for our services, exceptional client retention, and recurring revenue for Huron, as well as higher margins than traditional managed services models.

To further enhance our managed services offerings, in the second quarter, we acquired RelateCare, a leading provider of AI-enabled clinical and patient-access managed services solutions. Together, we strengthen our services around the patient journey by improving access and throughput, elevating patient and clinician experiences, and delivering measurable operational and financial performance.

As healthcare organizations navigate an increasingly complex regulatory and operating environment, we believe our deep client relationships, differentiated expertise, comprehensive portfolio, and outcomes-driven model position us to sustain strong performance in the healthcare segment.

Turning next to the education segment, in the second quarter of 2026, we saw an acceleration of our growth rate as the education segment RBR grew 8% compared to the second quarter of 2025, driven by strong demand for our digital and managed services offerings.

Universities and colleges continue to face significant market pressures stemming from multiple factors, including declining enrollments, reduced research revenue, pressure on net tuition, increasing operating costs, and a challenging regulatory environment.

Pressures create demand for our differentiated set of offerings. In the opportunities and challenges facing the higher education industry, university leaders are moving beyond incremental solutions, pursuing broader enterprise transformation initiatives that modernize operating models, improve student outcomes, and leverage technology, data, analytics, and AI to drive better decisions and greater efficiency.

Market disruption facing higher education is creating continued opportunities for our education segment. We continue to enhance our comprehensive portfolio of strategy, operations, technology, and research offerings to help institutions navigate these challenges and advance their missions.

For example, we're further differentiating our offerings through innovative solutions such as AI-enabled research administration tools, which are designed to enhance compliance with post-award quality control and reduced administrative backlogs, drives well-established reputation, long history of proven results, and deep client relationships makes us one of the most trusted advisors to the industry, which we believe will drive future growth in this business as we address the comprehensive needs of our higher education clients.

In the commercial segment, second-quarter RBR grew 25% over the prior quarter, reflecting incremental RBR from our acquisitions, as well as strong demand for our financial advisory and strategy offerings.

Excluding the impact of acquisitions, RBR in Q2 2026 grew 12% organically for the second quarter of 2025.

The increasing level of complexity in the operating environment for commercial organizations is driving global demand for transformational solutions that can bridge strategy, performance improvement, and technology execution. We continue to invest organically in targeted acquisitions, expand our capabilities, and deepen our expertise in our core industries within commercial, creating a platform that represented 21% of our total business RBR in the first half of 2026.

Our balanced portfolio of offerings, still relevant in both cyclical and counter-cyclical demand cycles, has improved the durability of growth by expanding our addressable market as we add new capabilities in this segment.

I believe the combination of our industry expertise and our capabilities all going to market together in an integrated operating model creates a differentiated value proposition for our clients that will help drive continued growth, diversification, and long-term value creation for our shareholders.

Today, I also want to highlight our digital capability. In the second quarter of 2026, digital capability RBR grew 9% over the prior year quarter and sequentially compared to the first quarter of this year.

We strategically invested in our digital business since 2013, combining our deep industry expertise, operational transformation capabilities, and technology execution to help clients accelerate speed to value and improve the financial return on their technology investments. We've seen the benefits of these investments build over time, including in the second quarter when we achieved record RBR.

Our digital business in the healthcare segment achieved strong double-digit percentage growth in the second quarter as clients increase their investments in modernized digital platforms and data foundations, as well as distinct AI and automation projects. Based on our backlog and pipeline, we expect to see continued double-digit growth in healthcare in the back half of the year.

In addition to our data management, analytics and automation, and AI offerings, the first half of 2026 compared to the same period last year, we've seen strong growth in our ERP, student information system, advisory services, and spend management offerings as clients continue to advance their digital transformations, better position themselves to adapt in a more competitive AI-enabled market.

We believe our operations-led data and AI-enabled offerings position our digital capability to remain a key beneficiary of ongoing digital modernization across our core markets for the foreseeable future.

And now let me turn to our outlook for the year. Inclusive of the acquisition of RelateCare, today we're increasing and narrowing our RBR guidance to a range of $1.85 billion to $1.89 billion, which represents an increase of 12% at the midpoint of our guidance compared to our full-year 2025 results.

Maintaining our adjusted EBITDA margin guidance range of 14.5% to 15% of RBR, which represents a 50 basis points increase over full year 2025 at the midpoint of our guidance range, and we're increasing our adjusted non-GAAP EPS guidance to a range of $9 to $9.40, which represents an increase of 17% at the midpoint compared to full year 2025.

I believe our updated outlook for 2026 reflects the ongoing market tailwinds for our business and the continued solid execution of our growth strategy will enable us to achieve the medium-term financial goals shared at our last Investor Day.

And let me close by sharing that we're proud of a track record over the last several years of consistently achieving RBR growth that has met or exceeded many firms in the professional services industry. Our business momentum continues, as reflected by our strong pipeline and bookings conversions in the quarter.

In addition, we built a multi-year track record of expanding our margins by executing against multiple operating levers, inclusive of AI, coupled with the benefits of scale stemming from a growing revenue base, which is expected to be double that of 2021. These factors collectively increase our confidence that we can continue to expand our adjusted EBITDA margins consistent with our stated goal of 15% to 17% by 2029.

And finally, our strong free cash flow allows us to continue to strategically deploy capital in a balanced way while achieving our leverage target by the end of the year. We believe that disciplined execution against our algorithm for value creation, achieving low double-digit revenue growth, consistent margin expansion, strong cash flow, and balanced capital deployment positions us well to meet or exceed our adjusted EPS goals and will ultimately drive significant value creation for our shareholders.

Finally, our continued financial performance and confidence in our 2026 outlook are only made possible because of our highly talented global team. Their commitment to our clients, our business, and their ability to adapt to the many changes in the business environment is a testament to the strength of our culture and furthers our ability to attract top talent to support our growth momentum while driving our business forward through continuous innovation and distinctive client service.

Now, let me turn it over to John for a more detailed discussion of our financial goals. John?

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Thank you, Mark. 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.

Press release, 10-Q, and Investor Relations page on the Huron website have reconciliations of these non-GAAP measures, 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.

Before discussing our financial results, I would like to discuss one housekeeping item.

Our healthcare segment results do include a partial quarter of operating results from our acquisition of RelateCare, which closed on June 3.

Now I'll share some of the key financial results for the second quarter of 2026.

Second quarter of 2026 produced record RBR of $465.6 million, up 15.7% from $402.5 million in the same quarter of 2025, driven by growth across all three operating segments, including 10.8% organic RBR growth in the quarter.

Net income for the second quarter of 2026 was $31.2 million or $1.91 per diluted share compared to net income of $19.4 million or $1.09 per diluted share in the second quarter of 2025. As a percentage of total revenues, net income increased to 6.6% in the second quarter of 2026 compared to 4.7% in the second quarter of 2025.

Our effective tax rate in the second quarter of 2026 was 27.2%, less favorable than the statutory rate inclusive of state income taxes, primarily due to certain non-deductible expense items and the inability to recognize tax benefits related to certain foreign and capital losses, partially offset by a tax benefit related to non-taxable gains and the investments used to fund our deferred compensation liability.

Our expectations for a full-year effective tax rate between 28% to 30% remains unchanged.

Adjusted EBITDA was $72.6 million in Q2 2026, or 15.6% of RBR, compared to $60.6 million in Q2 2025, 15.1% of RBR. The increase in adjusted EBITDA was primarily attributable to the increase in segment operating income for all three of our segments, excluding segment depreciation and amortization and segment restructuring charges, partially offset by an increase in certain unallocated corporate expenses.

We are pleased with our continued margin expansion in the quarter, consistent with our medium-term financial goals.

Adjusted net income was $40.2 million or $2.46 per diluted share in the second quarter of 2026 compared to $33.7 million or $1.89 per diluted share in the second quarter of 2025, growing adjusted EPS 30.2% year over year.

Now let's discuss the performance of each of our operating segments.

The healthcare segment generated 50% of company RBR during the second quarter of 2026. The segment posted record RBR of $232.3 million, up $34.5 million or 17.4% from the second quarter of 2025, driven by strong demand for our healthcare managed services, performance improvement, strategy, financial advisory, and digital offerings.

RBR in the second quarter of 2026 included $10.1 million of incremental RBR from our acquisitions of RelateCare, Eclipse Insights, and AXIOM.

Operating income margin for the healthcare segment remained relatively flat at 30.1% in Q2 2026 compared to Q2 2025. Operating income margins increased nearly 300 basis points during the first half of 2025 compared to the same period of 2024, reflecting a very strong 2025 margin performance in the segment.

We're pleased that we've been able to maintain strong margin performance in the first half of 2026, with the segment benefiting from healthy utilization and disciplined SG&A expense management.

The education segment generated 30% of total company RBR during the second quarter of 2026. Education segment RBR in the second quarter of 2026 was $139.4 million, up $10.1 million, 7.8% from the second quarter of 2025. The increase in RBR in the quarter was primarily attributable to strong demand for our digital and managed services offerings.

The operating income margin for education was 26.8% for Q2 2026, compared to 25% for the same quarter in 2025. The increase was primarily driven by revenue growth that outpaced the increase in salaries and related expenses for our revenue-generating professionals and a decrease in project costs, partially offset by an increase in performance bonus expense.

Commercial segment generated 20% of total company RBR during the second quarter of 2026. Commercial segment RBR grew $18.6 million, or 24.6% to $94 million in Q2 2026, compared to $75.4 million in the second quarter of 2025.

The increase in RBR reflects $9.2 million of incremental RBR from our acquisitions of Treliant and Wilson Perumal, as well as strong demand for our financial advisory and strategy offerings.

Excluding the impact of acquisitions, commercial RBR in Q2 2026 grew 12.2% organically over the prior-year period.

Operating income margin for the commercial segment grew to 21% for Q2 2026, compared to 16.6% for the same quarter in 2025. The increase in operating income margin was primarily driven by decreases in contractor expenses and salaries and related expenses for our support personnel, as well as revenue growth that outpaced an increase in salaries and related expenses for our revenue-generating professionals, partially offset by increases in performance bonus expense and share-based compensation expense for our revenue-generating professionals as percentages of RBR.

Corporate expenses not allocated at the segment level, excluding restructuring charges, were $65.4 million in Q2 2026 compared to $54.3 million in Q2 2025.

Unallocated corporate expenses in the second quarter of 2026 and 2025 include expense of $6.1 million and $3.7 million, respectively, related to changes in the liability of our deferred compensation plan, which is offset by the change in fair value of the investment assets used to fund that plan reflected in other expense.

Excluding the impact of the deferred compensation plan in both periods, unallocated corporate expenses increased $8.7 million, which included approximately $2 million of costs that had been reclassified from our operating segments in 2026, reflective of a shift to centralized support for certain sales and operations functions.

The remaining increase in unallocated corporate expenses reflects increases in compensation costs for our support personnel and software and data hosting expenses.

Now turning to the balance sheet and cash flows.

Cash flow from operations in the second quarter of 2026 was $120.5 million, compared to $80.1 million in the prior year period.

During the second quarter of 2026, we used $9.1 million to invest in capital expenditures inclusive of internally developed software costs, resulting in free cash flow of $111.3 million. We continue to expect full-year free cash flow to be in a range of $180 million to $220 million, that of cash taxes and interest, excluding noncash stock compensation.

We believe our robust free cash flow generation remains a highly compelling aspect of our financial model.

Please note that the midpoint of our free cash flow guidance, an updated full-year weighted average diluted share count expectation produced expected free cash flow per share of nearly $12 for a free cash flow yield per share of nearly 10% based on a stock price of $120.

DSO came in at 79 days for the second quarter of 2026 compared to 82 days for the first quarter of 2026. The decrease when compared to the first quarter is primarily attributable to the impact of collections on certain healthcare and education projects in alignment with the contractual payment schedules.

During the second quarter of 2026, we used $53.1 million to repurchase approximately 438,000 shares, bringing our total year-to-date repurchases to $208.6 million or approximately 1.6 million shares, representing 9% of our outstanding shares as of the beginning of the year.

Total debt as of June 30, 2026, was $834 million, consisting entirely of our senior bank debt.

We finished the quarter with cash of $31.2 million for net debt of $802.8 million. This was a $26.8 million decrease in net debt compared to Q1 2026, even after consideration of the share repurchases and acquisition payments made during the quarter.

Our leverage ratio is defined in our senior bank agreement was 2.8 times adjusted EBITDA as of June 30, 2026, compared to 3.1 times as of March 31, 2026. We remain committed to achieving a leverage ratio between 2 and 2.5 times by the end of 2026 in alignment with the capital allocation strategy outlined at our most recent Investor Day.

In summary, we are encouraged by the acceleration of organic RBR growth during the first half of 2026 when compared to 2025 and our continued margin expansion trajectory, driven by continued strong operating income performance by our healthcare segment and meaningful operating income percentage improvement in our education and commercial segments.

Compounding impact of this revenue growth and adjusted EBITDA margin percentage expansion, along with the impact of our share repurchase program, drove the 30% increase in adjusted earnings per share during the second quarter 2026.

Finally, let me turn to our guidance for the full year of 2026.

As Mark mentioned, inclusive of our recent acquisitions, today we are increasing and narrowing our RBR guidance to a range of $1.85 billion to $1.89 billion, maintaining our adjusted EBITDA margin guidance of 14.5% to 15% of RBR, and increasing our adjusted non-GAAP EPS guidance to a range of $9 to $9.40.

Our strong first-half performance and continued strength of our backlog and pipeline provide us confidence in increasing our full-year RBR and earnings guidance.

Now we provide some additional color in these numbers.

We expect the acquisition of RelateCare to add approximately $30 million of RBR in 2026. We expect the adjusted EBITDA from this acquisition as a percentage of RBR to be in a range consistent with our overall consolidated margin guidance, inclusive of certain expenses to integrate the business that we do not expect to repeat in 2027.

We also expect RelateCare to be accretive to 2026 adjusted EPS by approximately $0.10.

For full year 2026, we now expect healthcare segment RBR growth to be in the mid-teen percentage range with healthcare segment operating income margins remaining in a range of approximately 30% to 32%.

We now expect education segment RBR growth for full year 2026 to be in the mid to upper single-digit percentage range and education segment operating income margins to be in a range of 24% to 26%.

We continue to expect commercial segment RBR growth for full year 2026 to be in the low-teen percentage range and commercial segment operating income margins to be in a range of 19% to 21%.

We now expect unallocated corporate expenses, excluding restructuring charges and the impact of our deferred compensation plan to increase in the low double-digit percentage range for full year 2026 when compared to full year 2025, reflecting the impact of our RelateCare acquisition, reclassification of certain sales and operations support expenses from our operating segments, and increases in technology, sales and marketing, and recruiting expenses to support our top-line growth.

Finally, we now expect our full-year weighted average diluted share counts to be in a range of 16.6 million shares to 16.8 million shares, reflecting the accelerated share repurchases during 2026.

At our Investor Day in March of 2025, we discussed our belief that Huron is well positioned for continued RBR growth based on the strength of our position in large, complex regulated end markets, durability of demand for our services in a variety of different economic cycles, and the attractive platform we have built to recruit and retain market-relevant talent.

We also discussed our confidence in continued margin expansion as a result of increased consultant utilization, pricing realization as a result of our outcomes-based offerings and increased operational efficiency.

We're pleased with our progress since our Investor Day as reflected in our updated full-year outlook. We are increasingly encouraged about our ability to deliver on our medium-term financial goals of annual double-digit percentage revenue growth, expansion of adjusted EBITDA margins into the 15% to 17% range, and doubling our adjusted EPS between 2024 and 2029.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Andrew Nicholas, William Blair.

Andrew Nicholas - *William Blair Capital Partners - Analyst*

Hi, good afternoon. Appreciate you taking my questions.

I guess, first on hiring plans. The utilization in the quarter was, I think, as high as it's ever been. And so just kind of characterize where you sit in terms of capacity and any plans -- what your plans are over the next couple of quarters to ramp hiring to the extent that you're running hot on utilization?

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Andrew, it's John. Yeah, we're definitely still in market hiring right now. You're right, once we get over the 80% threshold, that's typically when we're doing more hiring in order to help ease that a little bit.

Our target, as we talked about on earlier calls, is more in that upper 70% range. So I think it's reasonable to think that, particularly in the areas of the business that are hotter right now from a utilization perspective, that you will see us adding headcount to address that.

Andrew Nicholas - *William Blair Capital Partners - Analyst*

Is there any guidance in terms of headcount growth ex managed services that you could point us to?

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Andrew, I'd look, if you think about the revenue growth that we talked about for the year, I probably think of the headcount growth for the full year landing somewhere less than that. So think of it as probably high-single-digit percent headcount growth in consulting. I mean, we'll see how the year progresses.

And last year, part of what we did in the back half of the year was add additional heads with anticipation of growth into the following year. So that's always a possibility, too. But I think a safe base case way to think about it would be headcount growth in the upper-single-digit percent range.

Andrew Nicholas - *William Blair Capital Partners - Analyst*

Got it. Thank you.

And then for my follow-up, I wanted to kind of hone in on the AI impact. Mark, in your prepared remarks, you talked about AI driving demand for digital services in particular.

Can you talk a little bit more about kind of your go-to-market strategy there and maybe how that demand is kind of coming to you? Is it natural through existing relationships? Is it a natural extension of projects that you're already working on that may or may not have AI involved or really any other color that you might add to the prepared remarks around AI-driven adoption or demand in particular?

Thank you.

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

Absolutely, Andrew. It starts with clients and the business units that have their relationships in the markets to understand the unique needs and aspects of where each of those particular segments are in their AI journey.

And so what we do is really equip our people in the business unit, both on the consulting and digital side, in partnership together to go to market. Sometimes, again, when listening to a client, what is on their mind. So it might be to, just as we described, you have opportunities that come in for a standalone AI project that might be strategy or governance.

You have others that are kind of embedded into perhaps larger digital initiatives as one aspect and sometimes, they're AI-first as a digital initiative. So it just depends on the client and market and we think the right answer for us is to let businesses who are very close to our clients and the relationships dictate that.

So I would say right now, it is really I would say kind of a natural flow of how we're just going to market overall.

Operator

Tobey Sommer, Truist.

Tobey Sommer - *Suntrust Robinson Humphrey Capital Markets - Equity Analyst*

Thank you. I was wondering if you could give us some more detail about demand in the digital arena, how it progressed in the quarter, sort of where it landed relative to your expectations and the pipeline?

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

It progressed in a positive trajectory. As the first half of the year went on, Tobey, and as the quarter projected, I think that was part of what gave us confidence in terms of increasing guidance at this point in the year.

Mark obviously gave us statistics about our bookings during the first half being up 20%-plus during the first half of the year. That was momentum including into the second quarter there. So I think you see we were year over year flat during the first quarter, saw the accelerations of the 9% growth, which was both year over year as well as sequential for the second quarter.

And our expectation is that you should see double-digit percent growth in the back half of the year.

Tobey Sommer - *Suntrust Robinson Humphrey Capital Markets - Equity Analyst*

And then could you maybe dig into what the drivers are of your managed services growth? You're clearly growing faster than the market. So customers seem to be kind of what you're offering appealing.

What exactly are those features of differentiation and are you growing as fast as you could? Or if you throw more resources at it, could you grow even faster?

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

Well, thanks, Tobey. I'll start. John can chime in. At 43%, we're pretty happy with that growth rate right now, and it's a lot to digest. And we've had, as I said, outstanding client retention along the way. And I think what that's telling us is that the way that we're approaching solutions for clients is really resonating.

And we're very different than some of the big providers in this space, the [R1, the Ensembles], et cetera, because often we start with that deep consulting knowledge of our clients from a revenue cycle perspective. And so it can basically be looking holistically at, do you want to continue to manage your revenue cycle? We have been approached to help them do that. Obviously, we don't want to try to be there to help them make that decision. It's certainly their decision that they make.

But we've also expanded in many areas with point solutions to take various aspects of the revenue cycle into our service line and often what happens is we land and expand on those. So I think when you have the combination of those things, it does set up like a very robust environment for additional growth.

The RelateCare acquisition, maybe I'll land it there, is just to take that same type approach and extend it way to care some -- one of our good example acquisitions in which we knew the principals of RelateCare for many years, referral relationships. And so this is the foundation of a good successful acquisition.

But I think for us, we see a lot of upside in managed services, and it's certainly a lever that we want to continue to drive in a very thoughtful, profitable way.

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

And I'll just add, Tobey, it's really just underscoring what Mark said, but that outcomes-based model that we have, and that really enables that part of our business to essentially be an extension as well as our performance improvement business.

So when we're in this period of time where the healthcare provider market is under such financial strain and going through so much disruption, the solutions that we offer that provide very tangible, clear ROI to our clients from managed services perspective, they become very attractive to our clients in the same way that our performance improvement consulting projects are very attractive to our clients in that sort of environment.

I think Mark touched on it, but it's one of the areas of the business where we've been the most advanced in deploying AI. And so for a lot of our clients, partnering with us is really a good way to bring AI into the equation.

And the final thing I'd point out too is it's smaller at this point, but we're also seeing really good traction in our education and managed services business too, which is mainly focused around the research function at university. So that's an area where we talked about high teens growth during the quarter and where we continue to feel like we've got a really good outlook in that part of our business going forward.

A lot of the same dynamics that are driving the healthcare managed services demand carry over to that education part of the business too and we're investing there as well.

Tobey Sommer - *Suntrust Robinson Humphrey Capital Markets - Equity Analyst*

Thank you for that answer.

With respect to the utilization, which was a relatively high number, can you level set us on how the current mix of business and the business as you see it going forward over the reasonably near to middle term, slight range for utilization to toggle in between and sort of steady state optimized utilization from your perspective?

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

I think, Tobey, in a steady state, the current mix of the business, I think it is that upper 70% range is probably the baseline to expect. So when I say that, somewhere between 77% and 79%, I think would be a good baseline and that accommodates some of our performance improvement areas, as well as our digital business, as well as areas like our distressed financial advisory or strategy, where it tends to be a little bit more of a senior team and where you might expect a mix of slightly lower utilization.

I think given the mix of our business now, that upper 70s is a good base case, and we were pleased during the quarter to see the outperformance there. Like I said, in response to one of the earlier questions, though, that is a trigger for us to continue hiring and really, our goal is to get it back down into the high 70% range.

Operator

Bill Sutherland, Benchmark StoneX.

Bill Sutherland - *Benchmark Company LLC - Analyst*

Thank you. Congrats on that solid print.

The bookings acceleration, Mark, that you mentioned in the quarter, was it broad-based and can you characterize it in some way for us?

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

Yeah, Bill, it was definitely broad-based and I'd say when we look at -- I would say consistent with what we've seen kind of in this year, seems like as we've gotten further into the year, we're seeing just more momentum picking up across various parts of the business.

But John, do you want to add any color commentary as well?

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

No, I agree. I think it was broad-based across the different industries, so that digital metrics spans all the industries, is broad-based across the industries, and then it was also broad-based across the different types of offerings that we have within digital.

Bill Sutherland - *Benchmark Company LLC - Analyst*

I was thinking probably managed services was prominent based on the momentum in the quarter?

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

So certainly, the stat that Mark provided in the prepared remarks related to our digital bookings but managed services also was a strong contributor during the quarter, as you guessed, reflected by the growth that we saw.

And that's an area where the pipeline continues to be very strong for managed services and trends quite favorably versus, say, at the end of last year or a year ago at this time, which is a really positive indicator for us as we look to continue scaling that business.

Bill Sutherland - *Benchmark Company LLC - Analyst*

And not to get too much in the weeds, but I noticed the actual downtick in quarter on quarter for education headcount.

Is that just more of a shift to manage services for that business or is there anything else going on there? And I guess that's some place you must be ready to do some hiring.

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah, Bill, that's primarily the consulting part of business there, and that's something that we've talked about previously.

Last year within that business, utilization was a little bit lower than what we would typically expect within that business, which wasn't a surprise to us given some of the disruption that was going on in the industry in 2025 related to research funding, for example, as well as other regulatory sorts of issues in 2025.

We always had a strong inclination that that demand was going to come back. We see that now in terms of the growth rate, but also in terms of the growth in pipeline. And so we had a little bit of capacity on the bench to start the year that we've been able to utilize. That would explain kind of the both dynamics, really. The uptick is part of the reason for the uptick in utilization as well as why headcount was down a little bit versus a year ago.

Bill Sutherland - *Benchmark Company LLC - Analyst*

Okay, great. Thanks for the color.

Mark Hussey

Thanks, Bill.

Operator

(Operator Instructions) Kevin Steinke, Barrington Research Associates.

Kevin Steinke - *Barrington Research Associates Inc - Analyst*

Great, thank you. Just circling back to the AI topic, again, you mentioned that you believe AI will be a significant contributor to your future growth. And when I kind of think back to the growth targets you laid out at your Investor Day in March 2025 of mid- to high-single-digit organic growth, did you think AI, the AI demand is incremental to that or is that kind of replacing maybe some of the technology work you would have been doing instead?

I'm just trying to get a sense to -- if it can kind of push us more towards the upper end of that organic growth target you have or any other thoughts on that topic?

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

I'm sorry, Kevin. I think it's fair to say, not all of it's incremental. I mean, there is definitely -- when you think about clients' technology budgets, you see that they spend money in different ways. But what we see is that for us, our ability to understand their businesses and with the trusted relationships that we have, and then on the commercial side, bringing that innovation as the challenger brand in some respects and some of the areas that we compete in.

It is opening up new opportunities, and oftentimes it's not just that it's only AI; it's now opening up new opportunities for clients to see things differently than perhaps they have not seen before. So the things that we've seen so far, we've not seen any kind of material price compression or other things that would be negative to revenue.

And then, again, I'll just maybe land it with saying, with so much of our business being either outcome-based or fixing in nature, it really has not found its way into any kind of -- so we're very bullish for that reason that we think it's likely to be -- one, you can see really if anyone looks back at what the rate of penetration is of AI into enterprises. It perhaps is not going as quickly as some would like.

There's going to be, just like every other technology transformation, very likely a continued investment in this over time. And I think that will then prove to be the kind of things that are going to bring value and growth opportunities for us.

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Maybe the only thing I would add, Mark, is I think our teams are increasingly excited about take all of the collective experience know-how IP that we have and our ability to use AI to be able to deploy that in new ways for our clients, expanding the addressable market in terms of what we can use using that data.

I think that that's something our teams are excited about. And as we think even about the consulting side of the business, so putting aside digital for a second, we think it could be a real enabler there of continue strong growth.

Kevin Steinke - *Barrington Research Associates Inc - Analyst*

Okay, yeah, that's helpful. And just looking at the segment expectations, you increased the segment growth expectations for 2026 in healthcare and education. I'm assuming that healthcare is just the RelateCare acquisition or is there more beyond that?

And then on education, I think before you're saying mid-single, now you're saying mid to upper. So kind of what gives you that increased confidence there?

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah, a little bit of color there. So for healthcare, it's not just RelateCare. It's also increased organic growth expectations based on our sales conversions during the first half of the year. So I think that building momentum gives us confidence in increased organic growth as well as the contribution from RelateCare.

Education, that uptick that you mentioned is based on the momentum that we've seen from a signings, pipeline, and backlog perspective, and I'm feeling like we've got building momentum in that part of the business.

And then I'll note for the commercial segment, we did keep that consistent with our initial guidance, and I would note that on the overall growth rate, you will see a little bit of pressure on that in the commercial segment in the back half of the year for really two reasons.

One, we're going to be annualizing some of the M&A that we did in the back half of last year. And then two, from a distressed financial advisory perspective, we do have a couple of projects in that part of the business that we expect to wind down in the back half of the year as well.

So that's kind of a full view from a segment perspective on the guidance, Kevin.

Kevin Steinke - *Barrington Research Associates Inc - Analyst*

Great. That's helpful.

And within education, the strength you're seeing there is that would you mostly tie that to digital or is it a little more broad-based?

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

So in terms of dollars, it's definitely digital as well -- digital primarily. I point out from a percentage perspective, we see a lot of growth in the managed services offering that we talked about before. And then given some of the building momentum, I think this was the second consecutive sequential quarter of growth in the consulting part of the business.

We do expect that to continue based on what we're seeing from a pipeline and backlog perspective into the back half of the year and get some easier comps. So I think that consulting will also be a contributor in the back half of the year.

Kevin Steinke - *Barrington Research Associates Inc - Analyst*

Great. Thank you for taking the questions. I'll turn it back over.

Operator

Steven Wahrhaftig, Wedbush Securities.

Steven Wahrhaftig - *Wedbush Securities - Analyst*

Good evening, guys. Thanks for taking the time. Congrats on the good quarter.

I kind of want to just dive into the AI topic of conversation. A lot of the questions around the pipeline and the impact that AI has had on the pipeline has really been answered. But I want to talk a little bit more about how you're looking to drive efficiencies across the business, each of the commercial, education and the healthcare businesses.

Where are you seeing the most opportunities to really drive a lot more margin expansion just from an AI perspective as you look to leverage those capabilities?

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

Yeah, you're talking about our internal delivery use of that, Steven, just for clarity?

Steven Wahrhaftig - *Wedbush Securities - Analyst*

Yes, correct.

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

Yeah, I mean, I think probably the most straightforward one is, our healthcare assessments, which we talked about for a long period of time that often precede our performance improvement engagements and historically they have been, call it 8 to 12 weeks and lower margin because it's there to the -- call it the data gathering assessment and all those things. That's very just appropriate for the AI-enabled tools.

We're seeing servicing really good results coming out of that. So in the context of that, it really is one of those things that takes out low margin revenue that would otherwise, be built into the base. But there's a lot of other areas as well.

We have teams deployed across the business units that are working together with deployed engineers who are really understanding bringing the subject matter domain experts together with people who understand the technology and full stack engineers who could figure out where are those opportunities and it really starts at that, using our proprietary data to leverage the insights that we have.

So we think we have -- a lot of that value is still well ahead of us, which is, again, when we talk about our 15% to 17%, we're right now kind of knocking at the door 15%. I feel very comfortable looking into that 15% to 17% range over the next several years.

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

And I would just add, Steven, from an internal process perspective we're using that, whether that's helping us with our contracting process, helping us with our billings and collections process as well as helping our sales teams in terms of doing research and gathering information. So there's a lot of things there that we've been able to -- that we already have been leveraging and that we expect to be able to continue to leverage to help streamline the expenses associated with some of those activities.

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

And of course, we've already mentioned managed services as well where we're deploying those tools. There's a tremendous amount of opportunities. We do have some software products as well, and we're building AI capabilities into them, so it's almost hard to say where we're not using it, and I can't think of anywhere that we're really not deploying AI at some level into this.

Steven Wahrhaftig - *Wedbush Securities - Analyst*

Okay, got it. And when thinking a little bit more around the outcome-based business, it really seems like you're generating a lot of traction with this contract shift.

Are you seeing any sort of change in pricing strength around any of the verticals that you have? Anything that you would want to note with this continued shift towards an outcome-based business?

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

I don't think right now, Steven, we've really seen any significant changes. We're, as you noted, we've been increasing our percent of outcomes-based contracts, but we already had a really healthy base of outcomes-based contracts start there. So for us, it's been incremental compared to what was already really a healthy base there.

So I think we've seen more of a stable environment in terms of competitive pressures and pricing related to those types of projects as opposed to any significant changes.

Steven Wahrhaftig - *Wedbush Securities - Analyst*

And one more, if I may, because you answered the question that I had around the commercial part of the business settings in the second half. I would love to hear a little bit more about the M&A process because it really seems like you're doing very well on the M&A front, especially with the acquisition of RelateCare and that extra incremental $30 million in RBR.

Can you talk a little bit more around the kind of capabilities that you're looking for heading into the second half of this year and into fiscal year '27?

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

Sure, Steven. We've highlighted programmatic M&A as part of our strategy for a while. In fact, we've talked about 2% to 4% growth over time is the range that we think makes sense for us, which RelateCare fits very well in that. And by virtue of those deals, many of which are proprietary, we're out there, we know people in the market, we see where those opportunities are to fill gaps.

Those are the ones that really come to the surface of expanding our business over time. We tend to lower risk, we tend to be accretive to our EBITDA multiple for the prices that we're able to pay for those businesses, and then we end up having better retention of our teams afterwards and complementing the talent.

So it's actually, for us, very integrated into the strategy that we have. And I think in this last six months, we certainly were continuing to be active looking. We certainly had a much higher bar for what we expected relative to where our share price was. We're very conscious of that. But we'll continue to expect -- we're not changing our outlook for that 2% to 4% range over time.

And I think what you'll see from us is those kinds of deals are the focus versus really large transformational deals, which I think have a lot of challenges with them. I think we're very comfortable being able to achieve our objectives and doing it the way that we're approaching them today right now.

Steven Wahrhaftig - *Wedbush Securities - Analyst*

I got it. Thanks for your time.

Operator

Thank you. Seeing no more questions in the queue, I'd like to turn the call back to Mr. Hussey. Sir?

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

Thanks, everybody, for spending time with us this afternoon, and we look forward to speaking with you again in November when we announce our third-quarter results. Have a good evening.

Operator

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