HURN.OQ - Q3 2020 Huron Consulting Group Inc Earnings Call

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Good afternoon, ladies and gentlemen, and welcome to Huron Consulting Group's webcast to discuss financial results for the third quarter 2020. (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 found 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 Jim Roth, Chief Executive Officer of Huron Consulting Group. Mr. Roth, please go ahead.

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

Good afternoon, and welcome to Huron Consulting Group's Third Quarter 2020 Earnings Call. With me today are John Kelly, our Chief Financial Officer; and Mark Hussey, our President and Chief Operating Officer.

Our third quarter revenues were in line with our expectations, declining 6% over the prior year quarter. While margins and cash flow were better than we anticipated. Continued proactive cost management efforts company-wide delivered significant savings in the third quarter, and has enabled us to increase our full year 2020 adjusted EBITDA and adjusted EPS guidance. John and I will provide more color around our updated guidance in a few minutes.

Growth in the Business Advisory segment reflected solid demand for our distressed advisory offerings and increased focus among our commercial clients on using technology and analytics to improve their operations. As has been well documented, the ongoing pandemic has continued to create both disruption and opportunities for our clients in the health care and education industries.

In response to the market impacts of the ongoing pandemic, our team

(technical difficulty)
measures to fortify our financial position while continuing to meet our clients’ evolving needs. We continue to execute on our 5-year strategy to drive profitable growth, which generated solid results in 2019 and at the beginning of 2020. Our priorities remain focused on actions that will position Huron for a return to growth following the pandemic and the strong foundation we built over the last several years, has provided us with flexibility to weather current challenges. Our performance in the market and our financial position allow us to continue to capitalize on emerging opportunities for growth including our recent acquisition of ForceIQ.

I will now share additional insight into our third quarter performance and the demand drivers for each of our businesses and then provide some color on our expectations for the remainder of 2020.

During the third quarter, Healthcare segment revenues declined 13%

year quarter. Utilization increased quarter-over-quarter into the low 70s and demand among our health system and academic medical center clients has enabled us to build a healthy sales pipeline. We remain cautiously optimistic about performance in the segment, primarily due to intense margin pressures in the industry, resulting from lower volumes, changes in payer mix and increased costs related to telehealth and other service delivery models.

Hospital patient volumes have recovered in the past 3 to 4 months, but in most cases, remain below pre-COVID levels. The primary questions facing our clients are when will volumes return to historical levels, and what changes post-COVID will most dramatically impact their fundamental business models. Driven by these questions, our pipeline is building based on clients reaching out to us to help position them for a very different strategic and financial future.

Business Advisory segment revenues grew 6% over the third quarter of 2019, primarily driven by our digital, technology and analytics and distressed advisory offerings. The impacts of the COVID-19 pandemic continued to result in significant challenges for our commercial clients, driving solid demand for our restructuring and turnaround services. In addition, nearly every company has seen the need to accelerate their digital transformation as they rethink how work gets done to drive operational efficiencies, better engage with their customers and make better data-driven decisions. This has resulted in strong demand for our digital, technology and analytic offerings.

Our ES&A and legacy business advisory practices have seen strong demand throughout the COVID period, and the third quarter was no exception. We continue to believe demand for our distressed advisory and technology offerings will continue to see solid demand in the fourth quarter as well as

Indicative of our expectations for future growth in our digital technology and analytic offerings, today, we announced the closing of our acquisition of ForceIQ, which strengthens our sales force and velocity capabilities within the ES&A business. ForceIQ excels in helping clients rethink how they digitally approach and interact with customers at scale. Together with our existing sales force business, ForceIQ enhances our position as one of the leading sales force industries partners. ForceIQ also brings to Huron additional depth and experience in health care technology, having provided digital innovation to some of the largest payer organizations.

Our Education segment revenues declined 9% over the third quarter of 2019, which is the first time segment revenues have declined in 22 consecutive quarters. Strong growth in the first half of the year was fueled prior to the COVID-19 pandemic. In the second and third quarters of this year, we worked through some of our prior backlog while business development activities and pipeline conversion were significantly impacted as our clients were focused on bringing students safely back to campus and transitioning to higher-quality online learning for the fall term.

Many higher education institutions face significant revenue declines from lower enrollments and reduced funding as states cut their annual budgets. These challenges are putting immense pressure on colleges and universities to evaluate the sustainability of their business models. Our education clients face a classic set of challenges, including how to balance immediate operational issues while strategically managing for the long term. There
is also an increasing recognition among our clients that the longer-term business of higher education will not resemble historical norms, necessitating a new strategic and operation that accommodates what is likely to be a very different type of demand for traditional academic offerings.

Similar to health care, technological advancements will play a critical role in achieving that vision and sustainable long-term success. With our deep industry knowledge and breadth of capabilities, we are uniquely positioned to help our education clients address these increasingly complex issues and help their organizations achieve a sustainable future.

Before I turn to our outlook for 2020, let me break with tradition and share a few comments about 2021, something we typically do not do prior to February. We are now in the 8th month of managing this company within the constraints and opportunities that the pandemic has presented. Our team has done an incredible job serving clients and supporting each other during this time. Collectively, we are focused on returning our company to growth and we are aggressively working to do so in 2021, including through the continued execution of our 5-year strategy.

As we plan for a return to company-wide growth amidst ongoing uncertainty among our clients and dramatic market disruptions, we recently took proactive measures to manage our cost base including adjusting our workforce in targeted areas of our business, delaying merit increases to employee salaries for the entire company, reducing our real estate footprint, and exiting a noncore business within our life sciences practice.

We finished 2019 with strong results, and we had solid momentum across our business during the first quarter of the year, which we believe positioned us well for another year of strong organic growth. The workforce-related actions we took last week better align our delivery capacity in certain businesses with the demand we currently anticipate for our services, while still providing us with the capacity we need to fuel growth as the market stabilizes. We believe these proactive measures will strengthen our financial position amidst the ongoing disruption and create a foundation from which we can grow and expand margins in 2021, despite the ongoing economic uncertainty in the market.

Now let me turn to our outlook for the year. We are increasing the midpoint and narrowing the range of our annual revenue guidance to $835 million to $855 million; and increasing our adjusted EBITDA guidance to a range of 10% to 10.5% of revenues. We now expect adjusted diluted earnings per share in a range of $1.95 to $2.15.

The economic environment in 2020 has demonstrated the importance of our commercial businesses to our overall portfolio. These businesses are well positioned to address our clients’ technology, strategy and operational needs, as most commercial sectors respond to the emergence of very different business models. We are excited about the continued growth of these businesses and we expect them to continue to perform well in 2021.

There is no doubt that our growth in the health care and education industries remains a critical element of our future success. We are working closely with our clients to address the near-term operational issues that hospitals and universities are facing. The driver of future growth across all 3 of our segments will be working with our clients to ensure that they have sustainable business models and that they are appropriately positioned from a strategic, operational and technology perspective for what is clearly going to be a very different environment when the pandemic eases. For those challenges, no other firm is better prepared than Huron.

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, Principal Accounting Officer, CFO & Treasurer

Thank you, Jim, and good afternoon, everyone. Before I begin, please note that I will be discussing non-GAAP financial measures, such as EBITDA, adjusted EBITDA, adjusted net income, adjusted EPS and free cash flow. Our press release, 10-Q and Investor Relations page on the Huron website have reconciliations of these non-GAAP measures to the most comparable GAAP measures, along with the discussion of why management uses these non-GAAP measures and why management believe they provide useful information to investors regarding our financial condition and operating results.

Also, my comments today are all on a continuing operations basis. Our recent acquisition of ForceIQ is not included in our third quarter financial results. ForceIQ will be included in the Business Advisory segment beginning in the fourth quarter of 2020.
Now let me walk you through some of the key financial results for the quarter. Revenues for the third quarter of 2020 were $205.3 million, down 6.4% from $219.3 million in the same quarter of 2019. The decline in revenues in the quarter was driven by the Healthcare and Education segments, partially offset by organic growth in our digital, technology and analytics, and distressed advisory offerings within the Business Advisory segment.

Net income was $11.1 million or $0.50 per diluted share in the third quarter of 2020 compared to $13.7 million or $0.61 per diluted share in the same quarter in the prior year. The decline in net income was driven by the reduction in revenue in the quarter. Adjusted non-GAAP net income was $13 million or $0.59 per diluted share in the third quarter of 2020 compared to $17.7 million or $0.79 per diluted share in the same period of 2019.

Our effective income tax rate in the third quarter of 2020 was 17.7% compared to 15% a year ago. Our effective tax rate for Q3 of 2020 was more favorable than the statutory rate, inclusive of state income taxes, primarily due to the current year-to-date pretax losses and the impact during the quarter of certain nondeductible business expenses, including the nondeductible portion of goodwill impairment charges based on the allocation of these expenses to the quarter in accordance with GAAP. The effective tax rate also reflected the positive impact of certain federal tax credits.

Adjusted EBITDA was $23.6 million in Q3 2020 or 11.5% of revenues, compared to $28.8 million in Q3 2019 or 13.1% of revenues.

Now I'll make a few comments about the performance of each of our operating segments. The Healthcare segment generated 43% of total company revenues during the third quarter of 2020. This segment posted revenues of $87.4 million for the third quarter of 2020, down $12.6 million or 12.6% from the third quarter of 2019. This decrease in revenue reflects the impact of the ongoing COVID-19 pandemic on our new business pipeline and related slower conversion of soft backlog during the quarter. Operating income margin for Healthcare was 29.3% for Q3 2020 compared to 32.9% for the same quarter in 2019. The quarter-over-quarter decline in margin was primarily due to a decrease in billable consultant utilization.

The Business Advisory segment generated 32% of total company revenues during the third quarter of 2020. The segment posted revenues of $66 million in Q3 2020, up $3.5 million or 5.6% from the third quarter of 2019. The increase in revenue during the third quarter was primarily attributable to our technology and distressed advisory offerings. The operating income margin for the Business Advisory segment was 16.3% for Q3 2020, compared to 19.1% for the same quarter in 2019. The quarter-over-quarter decline in margin was primarily due to increases in performance bonus expense for our revenue-generating professionals, reflecting the year-to-date performance in our digital, technology, analytics and distressed advisory businesses as well as lower utilization and bill rates in our strategy practices.

The Education segment generated 25% of total company revenues during the third quarter of 2020. The segment posted revenues of $51.9 million in Q3 2020, down $4.9 million or 8.7% from the third quarter of 2019. This decrease in revenue reflects the impact of the ongoing COVID-19 pandemic on our new business pipeline and related slower conversion of soft backlog during the quarter. The operating income margin for Education was 24.2% for Q3 2020 compared to 25.4% in the same quarter in 2019. The quarter-over-quarter decline in margin was primarily due to lower billable consultant utilization during the quarter.

Other corporate expenses not allocated at the segment level were $29 million in Q3 2020 compared with $32.3 million in Q3 2019. The reduction in other corporate expenses was driven by reduced salaries, bonus and stock compensation expenses for our support personnel, outside professional fees, reduced facilities expenses, and general corporate savings across multiple expense categories. These savings were partially offset by a $1.8 million increase in the liability for our deferred compensation plan, which is offset in other income by the gain related to the increase in market value of assets used to fund that plan.

Now turning to the balance sheet and cash flows. DSO came in at 62 days for the third quarter of 2020 compared to 68 days for the second quarter of 2020 and 70 days for the third quarter of 2019. Total debt includes the $248 million in senior bank debt and a $3 million promissory note for total debt of $251 million. We finished the quarter with cash of $75 million for net debt of $176 million. This was a $73 million decrease compared to Q2 2020.

Our leverage ratio, as defined in our senior bank agreement, was approximately 2.1x trailing 12-month adjusted EBITDA at the end of Q3 2020 compared to 2.6x trailing 12-month adjusted EBITDA as of June 30, 2020. The decrease in our leverage ratio was driven by the reduction in borrowings in the third quarter as we repaid $80 million on a revolving line of credit. Our net leverage ratio was 1.5x trailing 12 months adjusted EBITDA as of
September 30, 2020, when the bank definition calculation is adjusted for cash on hand. This compares to 2x trailing 12 months adjusted EBITDA as of September 30, 2019, when calculating in the same manner.

Cash flow generated from operations in the third quarter of 2020 was $76 million, and we used $3 million of our cash to invest in capital expenditures, inclusive of internally developed software costs resulting in free cash flow of $73 million. Our free cash flow in the quarter was better than we anticipated, driven by the reduction in DSO in the quarter and continued proactive cost management efforts company wide.

Given the ongoing COVID-19 pandemic, we continue to proactively manage our cash position to support our operations. Through September, we have not seen any material degradation in our cash collections and our net debt has continued to decrease.

As Jim mentioned, we recently took proactive measures to manage our cost base, driving annualized run rate savings of approximately $25 million. These savings will be generated in 2 primary areas. First, in certain areas of our business, given the ongoing pandemic and continued broader economic uncertainty, demand for our services has not yet returned to the levels we had anticipated earlier in the year. As such, we recently executed a targeted reduction in force in our corporate support personnel, in certain parts of our business that have been most impacted by the disruption in the market. Second, we have a plan to reduce our real estate footprint, while remaining in substantially all of our current geographies. In addition, we also have implemented certain cost avoidance measures, including delayed merit increases for all employees in 2021, that we believe will drive further savings.

Lastly, consistent with our long-term strategy, we are exiting the life sciences drug safety offering, a small noncore part of our life sciences practice. This business is small and the exit, which we anticipate to occur in the fourth quarter, will allow us to focus our investment in areas that are more aligned to our commercial strategy and where we see the greatest growth opportunities. We believe these proactive measures will strengthen our financial position to meet the ongoing disruption and create a foundation from which we can grow and expand our margins in 2021.

Finally, let me turn to our expectations and guidance for 2020. As Jim noted, we are increasing the midpoint and narrowing the range of our full year 2020 revenue guidance to $835 million to $855 million, inclusive of our recent acquisition of ForceIQ. In addition, we are raising our full year adjusted EBITDA guidance to be in a range of 10% to 10.5% of revenues and now anticipate an increase in full year adjusted non-GAAP diluted earnings per share in a range of $1.95 to $2.15.

We now expect our full year effective tax rate to be approximately 25% and cash flows from operations for the year to be in the range of $100 million to $110 million. We expect capital expenditures for the year, inclusive of internally developed software costs, to be approximately $16 million to $20 million and free cash flow for the year to be in the range of $80 million to $90 million, net of cash taxes and interest and excluding noncash stock compensation.

In closing, we are taking a disciplined approach to investing in opportunities for profitable growth while managing our costs where we can. And we believe we are creating a foundation from which we can grow and expand margins in 2021.

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

Thanks, everyone. I'd now like to open the call up to questions. Operator?
Hi. Good afternoon. With respect to the restructuring plans, I was just hoping you could share a bit more detail on where you're focusing headcount changes and at what level of the firm? And then also, was this something you'd been contemplating for a couple of quarters? Or has something materially changed about the demand picture, the pipeline that led you to make the decision last week?

John, do you want to take the first part of that and I'll take the second part?

That sounds good, Jim. So Andrew, it's approximately -- in total, it's approximately 140 roles that were eliminated. It's approximately 60 roles in both Healthcare and Education, approximately 10 roles from our -- on Strategy and Life Sciences business and the Business Advisory segment and then approximately 20 roles in our corporate team. So that's kind of the breakout amongst the teams. I don't know, Jim, if you want to give a little bit of color around kind of the decision process related to those reductions.

Yes, Andrew. So we've had probably 3 points during the course of the last 8 months where we said that we were going to be making decisions about how, if at all, to adjust our head count. And the first one was relatively early in the process, and again, this is back in the March, April, early May time frame, when hospitals were hit the hardest at that point in time. And we were -- we, along with some others, thought that this would have a chance of maybe easing in the summer and so we had opted to keep most of our people.

And then in the next time frame, was probably in the June, July time frame, where, again, we based it in our kind of quarterly forecasts. And again, we had some modest hope that things were beginning to ease with respect to the pandemic and that we thought we would be able to -- that things will begin to return to normal, hopefully, later in the fall. Not completely normal, but just ease some of the kind of the major challenges the hospital clients were having.

I think as the summer rolled on, it became increasingly apparent, particularly in September, as we started developing our September forecast, that things were not going to be back to anywhere close to normal during this current calendar year. And that's really when we decided to say rather than get into a guessing game in terms of when it is going to return to normal, our sense at this point in time is we just -- there are certain things that are stabilizing and certainly parts of our company that are doing very well. And others are still reacting to some of the changes that are taking place in the market.

So it was really mostly in September and early October that we began to plan for a possible more protracted impact of the virus on our clients. And that's really when we made our decisions.

Got it. That's helpful. Thank you. And then just as a follow-up on a separate topic, I was wondering if there's anything more you could say on the ForceIQ acquisition, in terms of the size of the company, what it would mean in terms of revenue contribution, if anything material. And then maybe a little bit more color on how you hope to leverage that acquisition within your existing practices in the areas where capabilities are most complementary.
John D. Kelly - Huron Consulting Group Inc. - Executive VP, Principal Accounting Officer, CFO & Treasurer

Sure, Andrew. I can start with the financial parameters, and then I'll probably hand it over to Mark Hussey, who can give some perspective on how it fits into the ES&A platform.

So from a financial parameters perspective, our expectation is that next year it will be a high single-digit revenue contribution to the company. During the fourth quarter of this year, we probably expect $1 million to $2 million of revenue, something like that. And then from a margin profile perspective, we're thinking it will be very similar to the ES&A practice, sort of in the mid- to upper teens EBITDA contribution perspective. And in all periods, the fourth quarter this year and the full year next year, we expect it to be accretive from an EPS perspective. Mark, I don't know if you can provide some commentary on how it fits in with the ES&A team?

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

Yes, sure. Sure. That's -- happy to do that. So Andrew, V3locity is built natively on the sales force platform. And it's the leading provider of industry-specific solutions for mobile software. And it is actually quite focused in areas that we are already working in, so areas like health, insurance, energy and utilities. So it's a good play for us to take our sales force practice and continue to evolve into a very industry-focused solution.

We had had some experience working with these folks in the marketplace. So it was one of those deals that basically was not shopped in the book but came along, it just made sense for us to align more closely. And so we're pretty excited about what it means for the sales force part of the practice.

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

Great. Thank you. And then if you don't mind, let me squeeze one more in. I just -- on kind of the implied fourth quarter guidance, at least on the top line, it looks like a sequential decline maybe of $5 million or so. I was wondering if you could unpack that sequential decline a little bit in terms of what you're expecting from each of the segments. I assume it's mostly additional pressure in the Education segment, but any other color would be helpful. Thank you.

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

Sure, Andrew, I can take that one. It's actually -- if you're looking sequentially third quarter versus fourth quarter, you're correct, it's probably some more sequential pressure in Education. But then there's a little bit of pressure on the other 2 segments as well, really just based on the calendar. And so we're probably being a little bit cautious there. But if you look at it from a business days perspective, there's actually 2 less business days in the fourth quarter than the third quarter, which is significant.

You've also got the holidays baked into the fourth quarter and then the final piece is there's been -- we're below where we'd usually be pacing from a PTO perspective at this time during the year. It's been a rough year for our people with the travel restrictions and all the effort it's taking to be delivering from a remote perspective, and we're expecting that during the fourth quarter, there's going to be some catch-up on PTO in conjunction with the holidays, and it's already short by a couple of days. So that's just kind of, naturally across the business, creates a little pressure, but the majority of it, we do expect to sequentially come from Education, as you suggested.

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

Makes sense. Thanks a lot.
Kevin Steinke from Barrington Research wants to know about the margin and cash flow better than expected. The decline in revenue has been offset by cost reductions. John D. Kelly explains that the improvement was due to cautious expense management, reduced spending on headcount, careful management of third party spend, and natural savings from reduced travel and marketing. The better than expected results also benefited from revenue being modestly better than expected.

Regarding the Education segment, James H. Roth from Huron Consulting Group Inc. states that there is a lot of uncertainty with clients having fewer students than expected and a higher cost base. However, he notes that universities are generally proceeding with the fall semester, despite some disruptions. The technology is considered to be better than in spring, but there is still uncertainty about the fall of 2021 and beyond.
into the market? What about the technology that's going to be required to deliver something. So there's a lot of uncertainty about their overall business model. And I think they're getting more and more confident they can actually get through the current year. But I think there's a lot of very valid worries about what higher ed is going to look like in 20 -- in the fall of 2021. And that's where a lot of our focus has been right now.

I think the last thing I'll say is that one of the things that was -- that had been deferred a little bit for us in terms of some of the schools deferring some of their ERP cloud implementations. I think they're now seeing the importance of having that kind of capability with their students, with their alumni, with their staff on a go-forward basis. So even though there had been some deferral of some of those engagements that we normally would have expected to hit during 2020, I do think we'll see a resumption of some of those in the coming year -- coming calendar year.

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

Okay. Great. And did you generate any meaningful, what you'd call kind of COVID response type revenue in health care during the quarter? I know -- I think you had called that out for the second quarter, but just wondering specific to the third quarter, if you would categorize anything as such.

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

We did. We did, Kevin. We had similar areas to what we talked about last quarter. We had test laboratory testing and tracing capacity, consulting project work. We had technology projects that helped our clients with telemedicine needs, and then we had work related to Medically Home implementation. So all those factors were still relevant this quarter and at a similar level to what we would have described in the second quarter.

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

Okay. And with your kind of plan to downsize the real estate footprint, is that contemplating some sort of partial hybrid work-from-home, remote type arrangement going forward? Or is that just more in response to the kind of the softer demand right now?

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

Kevin, I can take that one. It's -- we've spent a lot of time talking to our people and trying to figure out what they're going to feel most comfortable with in whatever kind of evolves from here. And then we looked at our own, we did a fair amount of evaluation of our usage of our existing space. And I think without knowing exactly what's going to happen, we all know that I think it's very unlikely that we all go back to working exactly like we did prior to COVID.

I also don't think it's feasible that we're all going to stay home forever. So there's this middle ground. And I think it's pretty much the middle ground that we're contemplating when we start modeling out what we think our space needs are going to be. And so that's what's enabled us to go back and reduce some of our footprint. John, anything you want to add to that?

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

No, I think that's well said, Jim. I think we will -- I wouldn't describe this as outside the normal realm of CapEx that we have in sort of any year, but I think we will be deploying some CapEx dollars to reconfigure some of our floor plans, to allow for more of a collaborative teaming environment and hoteling type environments to facilitate more of that flexible model that you referenced. But I think that's probably the big piece of it, but I think Jim explained kind of how we look at it from a people perspective.

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

Okay. That's all I had for now. Thanks for taking the questions.
Our next question comes from the line of Tobey Sommer from Truist Securities. Your line is now open.

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

Hi. Thank you. I was wondering if you could talk about some of the gating factors for getting more traction in the health care practice and momentum for new projects because just kind of curious how to put into context. Specifically, I had in mind the rebound in elective procedures and kind of what outside metric we may want to look at with respect to hospitals and what kind of conditions are best for you to be ramping new projects? Thanks.

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

So Tobey, this is Jim. I'll give a partial answer to a complicated question. I mean for starters, the volumes are certainly going to be an important part of that. But as we indicated in the earlier part of the script, there's a lot of factors. Volumes are one, and they're not clearly where they needed to be. I think most places aren't expecting them to return to pre-COVID levels for some time. So that puts margin pressure on the hospitals. That's number one.

The -- what I think is kind of still a relatively unbalanced economic recovery has put a lot of pressure on the payer side of things because you're having more and more people that are now on Medicaid, and that puts -- also puts pressure on the margins. You've got the transition to telehealth, and how much of the normal patient encounters that includes is going to be well above what it used to be, even though it will be well below what it peaked at back in March and April.

So you've got all those factors coming in, and I think it just creates a lot -- and actually, just the overall provision of care at this point in time is more expensive than it used to be because of all the precautions they have to take, they have to put through. So you put it all together, and there's just a lot of concern over the margins and the ability kind of continue to do what they need to do. So you can look at any one of those trends, I think, for better or for worse in the future and try to figure out what's going to happen. But I think collectively, we envision that this is going to put more and more margin pressure across the board in health care. And I think that will -- those trends tend to be good for us.

We have some very specific programs that we are initiating, that our goal above and beyond just our normal performance improvement capabilities, but we really are trying to help our clients define what is the business model going to look like and try to develop clinical designs that they can achieve and still make reasonable margins in the future. And so that's where a lot of our discussions are taking place. And I'll say that it's somewhat similar to what we're seeing in higher ed, and that is I think there -- the future, even if the pandemic were to ease, the future is still going to be sufficiently different that they really have to take a very serious look at their business model on a go-forward basis.

And even if volumes were miraculously to revisit the historical levels, the business is still going to be the same, and they're still going to have to make some adjustments. That environment tends to bode well for Huron and the services we provide.

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

And Jim, I'm going to -- I'll just add to the commentary to say our pipeline is actually quite strong right now. In fact, it's as big as we've seen it in recent time. And the majority of that pipeline is the type of projects we do in performance improvement that help clients that are under financial stress. So that's where a lot of our discussions are taking place. And I'll say that it's somewhat similar to what we're seeing in higher ed, and that is I think there -- the future, even if the pandemic were to ease, the future is still going to be sufficiently different that they really have to take a very serious look at their business model on a go-forward basis.

And another comment I'd make just to give extra color is we talked about, earlier in the call, that we did have some headcount reductions in the health care practice. None of those were within the PI part of our Healthcare business, just based on the demand that we see in the pipeline there. And it's a mix again of the financial distress sort of offerings. The pipeline related to medically home implementation is quite strong. And then from
a nontraditional perspective, and this is what Jim was touching on, from a care transformation perspective and really kind of doing a deeper dive in a lot of health systems on their cost structure and how they operate their business, we're seeing increased demand for those things.

So it's unfolding as we had anticipated, as far as the viewpoint that lots of clients are needing help in those areas right now.

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

Thank you. It dovetails into my next question, and that was going to be, could you comment on bill rates, and where you see it closing out the year and whether you have -- how you would characterize pricing momentum as you enter next year?

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

I think from a -- I'll maybe take that one by segment, Tobey. So from a health care perspective, it was a particularly strong quarter in the third quarter with bill rates being in excess of $250. I don't know that I would forecast that for the fourth quarter, but it is indicative of a market right now, where we're working with clients from a performance-based fee perspective and having arrangements where there -- it's more contingent-based so that the client gets to see the actual savings before they pay us for them. And I think that that's something that's attractive to the clients, but it still preserves our bill rate on those types of projects. So I think it's still going to be a relatively strong bill rate environment. For health care, though, I wouldn't necessarily count on $250-plus again for the fourth quarter.

From an Education perspective, you did see a dip in bill rate there, mid-180s. And I'd say that does reflect a part of the business right now where it's very competitive as some -- there's been a slowdown in conversion of some of the projects in the pipeline. And competitors have become more aggressive in that area. I don't necessarily forecast a further decline in the bill rates, but you might see bill rates in that general area for some time at this point.

And then from a Business Advisory perspective, I'd say I think the bill rates that we experienced this quarter are probably a reasonable bill rate to think about for the foreseeable future. We continue to have very strong bill rates in our distressed advisory practice given the demand there. It's a competitive environment for the technology practices but it's, at the same time, an environment that -- where there's robust demand, so I'd say bill rates are pretty steady there.

And then on the Consulting side, the bill rates were a little bit lower during the third quarter. We probably expect there to be some rebound on the -- from a strategic perspective -- strategy consulting perspective in upcoming quarters.

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

Thank you. And does the pipeline that you described as being high, I guess, particularly in Healthcare and Performance Improvement, does -- how does that inform your view as to the future bill rates and profitability of the segment? Is there any kind of difference between the current complexion of what you reported in the third quarter within the segment and what the margin and pricing profile looks like in the pipeline?

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

I think from a pricing perspective, I think -- again, it was a good pricing quarter in the third quarter in Healthcare, so that might moderate a little bit. I think we do expect, over time, our utilization to improve as we convert on some of those projects that are in the pipeline, and that should be something that helps our EBITDA margin. We're -- kind of year-to-date, it was a strong margin during the quarter because of those bill rates.

But year-to-date, we're more in the 26% range in Healthcare. And I think that's the metric where I'd look at the year-to-date 26%-plus for that to improve over time. It probably won't happen in the fourth quarter or even during the first or second quarter of 2021 as we -- at this point, we'll likely still see some utilization at a lower rate than what's been historically as we ramp up to meet that demand. But the expectation based
on what we see now in the pipeline and what we expect is that utilization will pick up as the year goes on and that you'll see healthier margins in that business as the year progresses in 2021.

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

Tobey, this is Jim. I'll just add one thing to John's comments. Market share is always kind of a hard thing to truly kind of gauge effectively in our business. Having said that, our sense is that we have, throughout all this, throughout the last 8 months or since, is we've not lost any market share. We probably gained some. I think the billing rates, the steadiness of the bill rates probably reflects some of that. The intensity and complexity of the issues that our clients are facing, it really puts a focus on firms that have the experience to address these needs. And I think that's really where we're very well positioned.

So I think the pressure -- the revenue pressure we've had is less from a competitive perspective, it's our sense and more from just an ability for our clients to take on additional work at this point in time, while they've either been busy develop -- dealing with the COVID crisis back in the -- for hospitals back in earlier in the spring and the universities this fall in terms of having students on campus. But I feel really good about the way that this is materializing for us because there's an absolute premium on firms that really know the business well, particularly when you're dealing with such complicated and, to some extent, strategic issues that are facing the clients. They really want somebody that knows the business well. And that's where we have got such great experience and credentials.

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

Thank you.

Operator

Thank you. Our next question comes from the line of Bill Sutherland from The Benchmark Company. Your line is now open.

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

Thanks and good evening guys. Most of mine have been asked, but I was wondering if you could -- if we get a little more granular in Education, just in terms of maybe the direction of the pipeline and other activity as you think about that based on research administration, technology and strategy and ops.

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

Yes. So I'll give I'll give kind of a general comment. John, you can maybe support it by numbers, if necessary. I think research has been relatively strong throughout. There was a period of time when a lot of the research couldn't be done just because people really weren't allowed on campus. And so that part of the business, for the most part, I think, has stabilized. And I think throughout this whole thing, in fact, research, particularly biomedical research, is going to end up having, I think, an even bigger future than otherwise would have pre-COVID. So research is pretty steady.

The S&O, Strategy and Operations business, also is very steady. I think the intensity of the work that they're doing there, particularly around clients wanting to either kind of readjust their strategic view or more importantly and more frequently, they're now looking to kind of do 2 or 3 or 4 trials of trying to develop a budget model that's actually going to work for them in the future based on the new reality. So that business is actually continuing to do well as well.

The technology part of it is the one where, I think, earlier in the year, certainly pre-COVID, we had anticipated some larger cloud implementations starting midyear, and that's where things have been delayed a little bit. And so I think that's beginning to pick up. They're certainly -- the clients
are not totally dormant, but -- and we've won a couple that will likely get started in the first quarter. But I think that's where you're going to start seeing -- in fact, I think once they understand that they can actually deal with the fall semester and it's not going to be terrible, I think they're going to begin looking -- focusing on how to begin to go back and get back on track with their technology strategy. And my guess is that will begin starting in the first and second quarter.

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

And I'll add to that, Jim, that similar to Healthcare, the pipeline in Education is as robust as it's been, perhaps a record, but certainly in recent times in that. I think not only do we feel good about that as we transition to more of a normalization of the operating environment education and the reality that there's a lot of projects right now that are pent-up that need to be completed, but in talking with our teams, when we look longer term, clearly, there have been some delays in 2020, given everything that's going on in the higher ed environment.

But we know that our client base, which, as a reminder, is typically the top 150 research universities in the U.S., that those projects don't need to get done. And ultimately, even if they're delayed, we feel very strongly that they're still going to come through. And just commenting on something Jim mentioned earlier, we feel very good about our win rate on the projects that have closed during this period of time.

So we continue to feel good about our competitive position and the volume of work that's there and the pipeline supports it. So we feel good where the business is trending over the longer run. It's just been a very disruptive period in the short run for higher ed for reasons that I think we all understand.

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

Got it. That's helpful. Does -- John, does the fourth quarter guidance or the implied guidance reflect any of the anticipated benefits of restructuring in terms of the cost structure?

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

Only to a very minimal extent, Bill. There's still going to be -- the -- we expect that the majority of actions related to the office space will happen by the end of the fourth quarter, although some of that office space may move into the first quarter. And while from an employee perspective, any employee that was impacted has been notified. Those employees will still be providing service in many cases through midway through the fourth quarter, so the impact is going to be minimal from a fourth quarter operating results perspective.

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

That's all I got. Thanks guys.

Operator

Thank you. Our next question comes from the line of Kevin Steinke from Barrington Research. Your line is now open.

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

Just had one follow-up. Just wondering, as it relates to your Healthcare clients, how they're reacting to preparing for the COVID surge we're seeing in the fall here, and if that's impacted the pace of your pipeline conversion at all.
James H. Roth - Huron Consulting Group Inc. - CEO & Director

Kevin, I think if you go back and you look at the anticipated pace that happened when the first COVID was first hitting back in March and April, I mean it was devastating, they basically shut down everything just to make room for actual or potential COVID patients. And certainly, even though it's -- in the scheme of things, it's been a relatively short period of time, the reality is there's been incredible knowledge gained in terms of how better to treat COVID patients.

So you've got several -- that impacts our hospitals in several ways. Number one, the length of stay is dramatically less than it used to be. The severity of the illnesses that are coming in are less. That's partly a result of the fact that they have a younger population that is getting more and more -- more increasingly getting the virus. And -- but I think the biggest issue is that they just have learned how to deal with it much better. They've also been -- found ways to kind of cordon off the COVID patients so that you actually can keep -- to the extent possibly, keep the rest of the hospital trying to operate as normal as can be.

And so I think that even with the current trend and even with the increase in recent hospitalizations, I don't think this is going to have anything close to the kind of devastating impact that it had in hospitals back earlier in the spring.

So the one other point that I'll mention is that I think the Healthcare clients, in general, benefited from a lot more financial support back in the spring than university clients are getting right now. And that may become a political issue post-election, I don't know for sure. But I think it's interesting that you really found that the federal support for a lot of the hospitals actually eased some of what appeared at one point to be huge, huge deficits actually enabled most of them to kind of close to break even and some actually make some money. So I think it's a long way of saying I think the current situation is going to be handled much better than they were able to handle it back in March, April and May.

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

Okay, that's helpful. Thank you very much.

Operator

Thank you. There is no more questions in the queue. I'd like to turn the call back over to Mr. Roth.

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

Thank you, and I want to thank all of our employees of Huron for staying focused and representing this company so well, amidst clearly adverse and unusual conditions. I'm very fortunate to be able to work with such innovative, collaborative and talented colleagues every day of -- at work.

As is our normal practice, during the fourth quarter, we will be conducting outreach with our shareholders regarding matters of corporate governance and hope to connect with you as part of this process before our next call in February. We encourage all shareholders to contact us if they have questions or wish to provide feedback.

Thank you for joining the call this afternoon, and we look forward to our next call in February. Have a nice evening.

Operator

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