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CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

PRESENTATION

Operator

Good afternoon, and welcome to Huron Consulting Group's webcast to discuss financial results for the third quarter 2022. (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 on Huron's website for all of the disclosures required by the SEC, including reconciliation to the most comparable GAAP numbers.

And now I'd 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 2022 Earnings Call. With me today are John Kelly, our Chief Financial Officer; Mark Hussey, our President; and Ronnie Dail, our Chief Operating Officer.

Our third quarter performance continued to reflect strong growth across all 3 operating segments. We achieved 27% revenue growth over the third quarter of 2021, primarily reflecting ongoing momentum in our Education and Healthcare industries and continued growth in our Digital capability. Despite increased uncertainty in the broader economic environment, we continue to anticipate strong demand for our offerings, leading us to increase our full year revenue guidance while narrowing the range of our adjusted earnings per share guidance to the midpoint of the range.

I will now share some additional insight into our third quarter performance. During the third quarter, Healthcare segment revenues grew nearly 26% over the prior year quarter. The increase in revenues was driven by strong demand for our digital, financial advisory, revenue cycle managed services and performance improvement offerings. The macro trends within hospitals and health systems have continued to be challenging for most of our client base. During the past several months, many health systems have reported their largest financial losses in a decade. The reason for those losses are familiar, inpatient volumes that are still lower than pre-COVID levels, volume shifts to outpatient and virtual, increased costs for labor, equipment and supplies, labor shortages, and reimbursement rates that are generally have not kept up with the increased cost structure.

Prior to the pandemic, many health systems had declining margins, but those declines came from reasonably healthy levels. It is likely that operating margins will remain depressed and in some cases, severely depressed for the next 1 to 2 years and possibly longer. This collective set of challenges for hospitals and health systems has led to strong demand for our Healthcare offerings, most notably in performance improvement, digital and revenue cycle managed services.

We expect the strong demand to continue as our clients look to our industry expertise and digital capabilities to improve their operational efficiencies and patient-centric interactions. Ongoing financial pressures across the industry will also likely continue to create solid demand for our performance improvement and strategy capabilities as health systems seek to broaden the revenue base and use technology and analytics to deliver care in increasingly diverse settings.

Turning now to the Education segment. In the third quarter of 2022, the Education segment achieved record quarterly revenues growing 49% over the prior year quarter and 7% sequentially. The increase in revenues over the third quarter of 2021 was driven by strong broad-based demand across all of our offerings highlighted by 53% growth in our digital capability in education. Similar to the Healthcare segment, colleges and universities are facing myriad challenges to their historical business model. Research institutions continue to grow with our research portfolios, but the cost of that growth is much greater than the related reimbursement from federal or commercial funding sources, generating continued strong growth for our research services.

Our strategy and operations team has been helping institutions improve the sustainability of their business models, while some of our clients evaluate opportunities to expand beyond their traditional offerings in search of new revenue sources. Our collective set of digital offerings, particularly in our cloud ERP implementations remain strong, and we expect the list of institutions seeking to deploy cloud-based systems will grow in the coming years.

And finally, our student business, including our cloud-based student solution, is demonstrating early success in what we believe will be a high demand business over the coming decade. Collectively, we believe that the Education segment will continue to have solid growth as the entire industry plays catch up in digital capabilities as it attempts to create more sustainable growth models.

Turning to the Commercial segment. In the third quarter of 2022, Commercial segment revenues grew 6% over the prior year quarter, driven by strong demand for our digital offerings, primarily across the financial services and energy and oil and gas industries. The increase in third quarter revenues from our digital offerings in the Commercial segment were partially offset by the divestiture of our Life Sciences business, which we sold in the fourth quarter of 2021 and a decrease in demand for our financial advisory and strategy offerings. Excluding the Life Sciences business, the Commercial segment grew 17% in Q3 2022 over the prior year quarter.

Our digital offerings within the commercial industries continued their solid growth trajectory in the third quarter. We continue to expand our offerings beyond our traditional core back office applications into CRM, data management analytics and emerging technologies such as intelligent automation as our commercial clients advance their digital transformations. When we held our Investor Day earlier this year, we highlighted the extent to which our digital capability continues to play a critical role in the growth of our company. Through the third quarter of this year, our digital revenues comprised 45% of total company revenues, spread relatively evenly across all 3 of our industry reporting segments.

We anticipate continued strong growth in our digital capability, and I want to provide some added context as to what is fueling our growth in this area. The pandemic highlighted the need for all organizations to have greater digital interaction with their employees, customers, patients, students and suppliers. A significant number of our clients look to cloud technology solutions to enhance revenue opportunities and gain operational efficiencies through automation.

In our core industries of Healthcare and Education, our clients are also looking to personalize their interaction with their patients or students through multiple digital channels and to get a consistent and informed view of their customers' needs. We believe this trend is going to lead to continued strong growth for our digital capability in the commercial, healthcare and education markets.

We are succeeding in the market due to our combined industry expertise and digital capabilities, and we believe these strengths will lead to profitable growth across all of our industry verticals.

The transition to our new operating model at the beginning of this year was also highly instrumental in creating an organizational structure that was more conducive to achieving the internal and market-facing efficiencies that we believe will continue to enable us to achieve strong industry and digital revenue growth, even on certain economic conditions.

Finally, let me turn to our outlook for the year. As our press release indicates, we are increasing and narrowing our annual revenue guidance to $1 -- I'm sorry, to $1.09 billion to $1.11 billion and we are maintaining our adjusted EBITDA guidance in a range of 11.5% to 12% of revenues, narrowing our adjusted diluted earnings per share guidance to a range of $3.25 to $3.35. Our third quarter results and updated outlook further demonstrate the vibrancy of our end markets and the strong demand for our offerings.

We continue to believe that the underlying demand for our offerings will be solid throughout the remainder of the year, and we are encouraged by our growing pipeline and backlog for 2023. To position ourselves for continued strong growth, we are investing in our business, primarily by growing our team to develop on current and anticipated demand across all of our capabilities and industry verticals.

Now let me turn it over to John for a more detailed discussion of the financials. John?

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

Thank you, Jim, and good afternoon, everyone. Before I begin, please note that I will be discussing non-GAAP financial measures such as EBITDA, adjusted EBITDA, adjusted net income, adjusted EPS and free cash flow. Our press release, 10-Q and Investor Relations page on the Huron website have reconciliations of these non-GAAP measures to the most comparable GAAP measures, along with the 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.

Now let me walk you through some of the key financial results for the quarter. Revenues for the third quarter of 2022 were $285.4 million, up 27.4% from $224 million in the same quarter of 2021. The increase in revenues in the quarter was nearly entirely organic and driven by growth across all 3 operating segments, particularly our Education and Healthcare segments and was reflected on the strong demand for our digital offerings across all industries.

Revenue within our digital capability increased 45% in the third quarter of 2022 over the same period in 2021. In addition, revenues reflect continued strong demand for our Consulting and Managed Service offerings within the Education and Healthcare segments, which grew 46% and 17%, respectively, in the third quarter of 2022 over the same period in 2021.

Net income was $17.7 million or $0.86 per diluted share in the third quarter of 2022, compared to $13.7 million or $0.64 per diluted share in the same quarter in the prior year. Our effective income tax rate in the third quarter of 2022 was 30.2% compared to 12.5% 1 year ago.

Our effective tax for Q3 of 2022 was less favorable than the statutory rate, inclusive of state income taxes, primarily due to tax expense related to nondeductible losses and the investments used to fund our deferred compensation liability and certain nondeductible expense items. Adjusted EBITDA was $36.5 million in Q3 2022 or 12.8% of revenues compared to $26.4 million in Q3 of 2021 or 11.8% of revenues. Adjusted non-GAAP net income was $20.7 million or $1.01 per diluted share in the third quarter of 2022 compared to $16.8 million or $0.78 per diluted share in the same period of 2021.

Now I'll make a few comments about the performance of each of our operating segments. The Healthcare segment generated 46% of total company revenues during the third quarter of 2022. This segment posted revenues of $131.3 million during the quarter, up $26.7 million or 25.5% from the third quarter of 2021. Revenues for the third quarter of 2022 included $1.2 million from our acquisition of Perception Health, which was completed in December of 2021. The increase in revenue in the quarter reflects strong demand for our digital offerings as well as our financial advisory revenue cycle managed services and performance improvement offerings. The digital capability in Healthcare grew by 49%, reflecting increased demand for our ERP and electronic health record offerings.

Operating income margin for Healthcare was 25.2% for Q3 of 2022 compared to 30.7% for the same quarter in 2021. The quarter-over-quarter decrease in margin percentage is primarily attributable to the mix of the strength of our digital offerings during the quarter in our investments and head count growth that we believe will drive continued growth for this industry into 2023.

The Education segment generated 33% of total company revenues during the third quarter of 2022. The segment posted record revenues of $94.3 million in Q3 2022, up $31.1 million or 49.2% from the third quarter of 2021. Revenues in the third quarter of 2022 included $2.2 million from our acquisition of Whiteboard, which was completed in December of 2021.

The increase in revenue reflects the continued strong demand for all of our offerings across the segment, including digital capability growth in the Education segment of 53%. The third quarter of 2022 represented the seventh consecutive quarter of sequential growth for the Education segment. The operating income margin for Education was 24.2% for Q3 2022, compared to 23% for the same quarter in 2021. The quarter-over-quarter increase in margin was primarily due to revenue growth that outpaced our corresponding cost to deliver during the quarter, partially offset by investments in headcount growth, technology expenses, in cloud-based training -- cloud-based technology training that we expect will drive continued strong growth for this industry into 2023.

The Commercial segment generated 21% of total company revenues during the third quarter of 2022. Segment posted revenues of $59.7 million in Q3 2022, up $3.6 million or 6.3% from the third quarter of 2021. Revenues for the third quarter of 2022 included $400,000 of inorganic contributions from our acquisition of AIMDATA which was completed in January of 2022. The increase in revenues reflect continued strong demand for our digital offerings, partially offset by a decline in revenues due to the divestiture of our Life Sciences business in the fourth quarter of 2021 as well as a decrease in demand for our financial advisory and strategy and innovation offerings.

In the third quarter of 2021, the Life Sciences business generated revenues of $5.1 million. Our digital offerings in the commercial markets grew 35% in the third quarter of 2022 as compared to the same period a year ago. The operating income margin for the Commercial segment was 23.7% for Q3 2022, compared to 14.7% for the same quarter in 2021. The increase in operating income margin for this segment was primarily due to the revenue growth in this segment, coupled with a decrease in direct costs during the quarter, which was primarily due to the Life Sciences divestiture in the fourth quarter of 2021.

Corporate expenses not allocated to the segment level were $35.7 million or 12.5% of revenues in Q3 2022 compared with $31.4 million or 14% of revenues in Q3 2021. Unallocated corporate expenses in the third quarter of 2022 included a $1.3 million reduction of expense related to the decrease in liability to participants in our deferred compensation plan, which is fully offset by the corresponding loss and other income related to the decrease in fair value of the assets used to fund that plan. Unallocated corporate expenses in the third quarter of 2021 reflected a similar reduction of expense of $200,000 related to the deferred compensation plan. Absent the impact of our deferred compensation plan in both periods, unallocated corporate expenses increased $5.4 million, which is primarily due to increases in salaries, bonus and related expenses for our support personnel.

Now turning to the balance sheet and cash flows. We finished the quarter with borrowings on our revolving credit facility of $341 million with cash of $9 million for net debt of $332 million. Third quarter included $45.6 million of share repurchases or approximately 686,000 shares. On a year-to-date basis, we repurchased 1.7 million shares, representing 7.8% for our outstanding shares as of the beginning of the year.

Our leverage ratio is defined in our senior bank agreement, was approximately 2.1x adjusted EBITDA as of September 30, 2022, compared to 2.7x adjusted EBITDA at the end of the third quarter of 2021. As of September 30, 2022, $32.3 million remained available for share repurchases under our current authorization.

In October of 2022, our Board of Directors increased our authorization for share repurchases by another $100 million. Cash flow generated from operations in the third quarter of 2022 was $44.4 million and we used $5.8 million of our cash to invest in capital expenditures, inclusive of internally developed software costs, resulting in free cash flow of $38.6 million.

DSO came in at 85 days for the third quarter of 2022, compared to 81 days for the second quarter of 2022 and 76 days for the third quarter of 2021. The increase in DSO was reflective of the pace of revenue growth during the year and certain larger healthcare and education industry projects with extended billing and payment terms, which are normal and our mix of business intend to ebb and flow over time.

Finally, let me turn to our expectations and guidance for 2022. As Jim noted, we are raising and narrowing our full year 2022 revenue guidance to be in a range of $1.09 billion to $1.11 billion. The increase in our revenue guidance primarily reflects strong momentum across our business and the significant growth opportunities in each of our core industries. In addition, we continue to expect our full year adjusted EBITDA to be in a range of 11.5% to 12% of revenues, and we are narrowing our full year adjusted non-GAAP diluted earnings per share guidance to be in a range of $3.25 to $3.35.

The midpoint of our adjusted EPS range is consistent with our expectations as of our second quarter call, now reflecting increased adjusted EBITDA expectations and a reduced diluted share count, offset by increased interest and income tax expense related primarily to increased interest rates and the tax impact of the decline in value of the assets used to fund our nonqualified deferred compensation plan.

Finally, we expect our full year effective tax rate to be in a range of 30% to 32% and we continue to expect full year free cash flow in a range of $70 million to $90 million.

Thanks, everyone. Before we open the call for questions, I'd like to turn the call back over to Jim for some additional remarks.

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

Thanks, John. And before we turn it to Q&A, I do want to make a couple of comments. Today marks my 54th and final earnings call as CEO. Starting on January 1, I will be Vice Chairman of the Board and will be working full time in the market with our great team doing the things that I'm most passionate about working with our clients and our people.

I began my role as CEO in 2009 at a challenging time for this company. Since then, Huron has undergone considerable strategic change to become a highly respected global professional services company providing an array of consulting, digital and managed services offerings to industries that are core to the U.S. and global GDP. Our evolution to where we are today was not a straight line. While there were times that the seas were rough and the winds contrary, we stayed focused on growing the company. Our people proved resilient during the tough times and stayed focused on supporting our clients, our business and each other at all times.

I am proud of my accomplishments over the past 13-plus years in this role, but more importantly, I learned 2 things that warrant special mention. First, while the executive team and I play a critical role, the quality of the people in this organization are the sole reason for our success. All of our success, and I mean all of it is attributable to the talent of our people and their ability to apply that talent to the needs of our clients and our business. The second lesson I learned is how critical culture is to an organization. I had less of an appreciation of its criticality when I started this role and I now believe that our culture is the most important asset we have. When I look back at what we have achieved since I helped start this company 20 years ago, the strength of our culture remains the single thing of which I am most proud.

As we have previously shared, Mark Hussey will be taking over as CEO on January 1. I hired Mark as our CFO in 2011, and he eventually took on the added responsibilities of President and COO. During his time at Huron, Mark has become highly knowledgeable in each of our businesses, helped the company through several strategic and operational transformations. And more importantly, he has earned the respect of our people. Mark has been my confidant on all critical decisions in this company over the past decade, and there is no one that is better positioned to help Huron continue its growth. This company is going to be in great hands under Mark's leadership.

Being CEO of this company has been the highlight of my career, and I thank all of you for your confidence and support of this organization during my tenure. I look forward to continuing to help grow Huron in the coming years.

And with that, we can turn it over for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question for today comes from the line of Tobey Sommer from Truist.

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

A question for you about the Healthcare segment, if I could. The margin was a little bit lower on a year-over-year basis. Could you describe the drivers in that? And I remember historically, sometimes if you're out doing a lot of valuation work in PI, that could drag things down on a temporary basis.

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

Tobey, it's John. You're right on that factor that you point out. It was a very busy quarter for our team from a performance improvement aspects of our teams. So the consulting side of Healthcare with a lot of -- a lot of inquiries from clients based on some of the pressures that Jim described that did lead to a number of assessments during the quarter. I think the bigger issue was really just the strength of the Digital business during the quarter. I wouldn't describe that necessarily as a permanent trend line. I think that there are going to be ebbs and flows between the quarters and some of the mix during the quarters between digital and consulting.

And our expectation is that during the fourth quarter, we're probably going to see some additional strength from our performance improvement team and consulting just based on some of the pipeline that we closed in the hard backlog at the end -- towards the end of the third quarter, as well as the potential for some performance-based fee opportunity upside during the fourth quarter. So I think it's going to balance back out. You'll probably see margins tick up sequentially into the fourth quarter, would be my expectation. But the primary driver for the third quarter was really related to just the strength of the digital offerings within the segment.

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

Okay. How do you sit in terms of bill rate as you look into next year? Are you -- do you think you're going to be within historical trends in terms of pricing? Or do you expect to be sort of on the upper bound of what might have been considered normal over time?

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

I think we have seen pricing improve over the past year or so, Tobey. So obviously, that's been somewhat offset by the fact that the cost of our delivery has also increased over that period of time. But from the pricing that we've been able to see with our clients particularly within the health care industry, we've been able to push through the majority of those labor increases that we have into our rates. And so we're able to maintain a steady contribution margin within that business, which implies higher bill rates compared to historical norms as we move forward.

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

And then with respect to the way your customers are procuring your service when they decide to contract traditional time of materials or choose an alternative form. Are there any trends or tenancies changing the outlook for that contract type mix going forward?

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

There really aren't that we see, Tobey. It's been fairly consistent in that regard. Obviously, to the extent that we see increased demand for our performance improvement offerings based again on some of the market conditions that Jim described. Oftentimes, those jobs are fixed fee with a performance-based opportunity in addition to that. So I think that's consistent with what we've seen in the past, but I think that, that trend will continue.

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

And year-to-date in the quarter itself, the capital allocation towards buying back stock has been pretty pronounced based on the outlook in some of the commentary in the early part of Jim's prepared remarks talking about a good couple of years to look forward to at least. Do you expect to follow through with additional share repurchases at this point?

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

I think you will see us continue to do share repurchases, Tobey. We'll go back to the framework that we put out there at our Investor Day back in March. And I think our plan is to continue to reduce the share base in a manner that's consistent with what we described at our Investor Day. Now of course, we do monitor all the different levers. And so obviously, it's been a increasing interest rate environment. So we keep our eye on that. We model around that. You also have some of the tax consequences coming into play next year where there'll be tax on top of the market -- the net market value of buybacks next year.

So we factor those things in. But we also look at what our expectations are for increased net income as we go forward. And that's a factor as well as our assessment of where the stock is trading versus the valuation that we expect to achieve based on the results that we're forecasting. And so we take all those factors into consideration. And I think the short answer is that our expectation is that share buybacks will still be part of that equation going forward, even with the increased interest rates and some of the tax implications.

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

Jim, congratulations. It's been a pleasure working with...

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

Thank you, Tobey. Great working with you as well.

Operator

(Operator Instructions) Our next question comes from the line of Andrew Nicholas from William Blair.

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

I'll echo those comments. Jim, congratulations on a great run, and it's been a pleasure working with you as well. I wanted to ask a question on headcount growth, really, really strong. on a year-over-year and sequential basis. Could you speak a bit to the mix of that hiring? Is that primarily undergrad hiring or younger staff coming into the firm? And if you could speak to kind of the competitiveness of recruiting and your ability to procure all that talent this quarter, that would be helpful.

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

Andrew, this is Jim. I'll take that. I think the hiring has really been across the board. We've obviously been hiring a lot in the digital areas. That's one of the areas where frankly, a lot of the areas within our company right now are growing nicely. The digital one is the one that I think begins to give us a little bit more visibility. So it's easier to hire into that area. But I think we were -- the ease with which we're doing it, I think, is not -- it's not easy at this stage, but I think we're having a pretty good platform into which to recruit people. I think they really know and understand that we've been performing well that the offerings that we have in the markets that we're serving are attractive. And I think that's been helping us out a lot as well.

So I think we -- our view is we've got a good platform to recruit into at all levels. I know there's always this issue of wages. And I think certainly, that's a part of it as well, but we believe that our wages are all very competitive, particularly on a total compensation basis. So I think you add those together nice wages, good benefits and attractive markets that we're serving in a growing company, and we feel good about our ability to continue to recruit and retain our people.

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

Got it. And then for my follow-up, I think you mentioned or gave color on the current pipeline and just kind of the breadth of strength across all the businesses. But just wanted to make sure there wasn't any kind of large or lumpy onetime items or onetime projects in the quarter. Obviously, again, really, really strong growth figures. So I just want to get a sense for the repeatability of some of those metrics and make sure there wasn't anything bigger in the past couple of quarters that we should be aware of?

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

Andrew, John, I'll take this one. No, there was nothing unusual or nothing lumpy in the quarter. Nothing outside of -- just kind of the normal stuff that we see. And no big projects -- notably big projects starting or ending during the quarter, anything like that. Just more broadly, since you asked about the pipeline. In terms of closing out the year, we feel good across the business that our hard backlog, so the stuff that we've already sold covers us at the midpoint of guidance, which is a very strong indicator for us, for our ability to attain that level for the remainder of the year. Now we still need to deliver on that backlog and we can't always control the pace of projects of the holidays in the back half of December, but we certainly feel good about where we stand from a backlog perspective.

And then as we start to look out into the first quarter of 2023, we're really pleased with both the backlog we have, but also our pipeline. And as we look at our coverage levels really across the business, relative to some of our preliminary revenue targets for the first quarter next year, that coverage level outpaces kind of of where we've been from a historical norms perspective. So we feel good about that as well.

And then one note, that we referred to earlier. The Healthcare team had a really nice close out to the third quarter in terms of their sales on that. Again, it's just reflecting some of the performance improvement pressures that Jim referred to earlier. In fact, September was the largest sales month in Healthcare that we've had since the beginning of 2020.

Operator

And our next question comes from the line of Kevin Steinke from Barrington Research.

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

I wanted to ask first about consultant utilization, just ticking down a little bit sequentially for both the consulting and the digital pieces of your business. Should we just think about that as reflecting the accelerated hiring you're doing to meet demand? Just -- and should we expect it to trend back up as we move forward?

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

And that is what it relates to, Kevin. If you look at the headcount trends for the year, we've been signaling throughout the year, but we've been adding headcount both to deliver on the growth that we've been able to achieve this year. But really, as the year goes on now, kind of the outlook for where we expect things to transition into the early part of 2023. So we've continued to make some of those investments. So we've been making those investments really across -- throughout all of our geographies as a company. So that's been a -- the theme with the utilization throughout the year.

But our expectation is that with the hiring that we're doing right now as well as the training that we're doing right now that, that's going to set us up both for growth, but then also to continue margin expansion next year as those new hires that we've had get kind of through the training period and get into fully billable period as we head into next year.

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

Okay. Good. And is there any one specific area or practice or segment that is driving the increase in revenue guidance? Or is it more broad-based?

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

More broad-based. If I drill down a little bit into that for where we expect to see the revenue come from for next year -- I'm sorry, for the remainder of the year, I'd say for 2022, we're, at this point, expecting the health care industry to be a mid- to upper teen percentage range grower year-over-year, '22 versus '21. We're now expecting Education segment to grow in the low 40% range year-over-year. And we're expecting the commercial industry to grow in the mid-single-digit range year-over-year. But it's important to remember there that that's not making any adjustment for the divestiture of the Life Sciences business. And if you were to exclude the Life Sciences business from 2021, that would be more of a mid-teen growth range for the Commercial segment.

And then if you want to deslice it by capability, we're expecting our digital capability for the full year to grow in the high 30% range year-over-year. And for our Consulting and Managed Services capability to grow in the low double-digit range year-over-year.

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

Okay. Great. Just curious about your internal development of people and if you're putting even more emphasis on that and growing senior consultants and developing them internally due to the tight labor market and reducing your reliance on external hiring? Or is there not really much of a change going on there from what you've historically done?

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

I think there's not much of a change. This is Jim. There's not much of a change in terms of what we've historically done. I think, clearly, when you're going through a big growth spurt like this, it puts added stress in terms of making sure that people get onboarded in the right way and they feel comfortable here and they get to know their colleagues. And I think as we've all experienced doing that in an environment where we're not working full time in the office or we're not working full time with clients is even more difficult. And so I think these are challenges and we're not alone in having to face those.

But at the same time, we're making a lot of effort to find ways to get our teams together and doing it in ways either at the client site, in our offices, and we're just making a very conscious decision to try to enhance the culture that we think we have here that really -- that people miss if they're not going to be working with their colleagues all the time. So we are extremely focused right now on internal development of our people and will continue to be -- I think it makes it that much more critical as we grow, as we become even more and more global and it becomes really important.

The other thing that I would just say is that when we established our new operating model at the beginning of the year, it kind of created opportunities for our people to work together across boundaries and ways that they hadn't been able to do before. And we have found that has been a real boon to our ability to get people to feel even that much more comfortable because they have multiple avenues that they can get to know people, multiple projects and multiple competencies they can work on, and we've heard a lot of really good feedback on that as well.

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

Only thing, Kevin, this is John, that I would add. I think Jim summarized it very well is that has been an area of investment for us this year. So that -- the internal development of people. And so you made the point of your question, Kevin, you referenced the labor market. So we're always going to out of the balance between experienced hires and then hiring entry-level employees who we then provide training to, particularly in the digital area. But given the tight labor market, we've been investing significantly this year in some of those entry-level employees and providing some of our own training.

And the reality is, if you look at the cost to us of having done that over the course of the year, that's probably been a mid-single-digit million dollar investment that has been even greater than what we would have initially planned at the beginning of the year given the growth that we've seen.

And the other comment I'd make is from a geography perspective, India has been a location where we've been making heavy investments and personnel there as well as providing some of that technology training. So that's a place where cumulatively, across the entire platform, it's good to support revenue growth, but we also think it's going to be good for supporting continued margin improvement next year as those resources become fully build on projects.

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

Okay. That's helpful commentary. Just lastly, I wanted to ask about economic conditions and certainly, you noted that you expect continued strong demand despite uncertain economic conditions. But are you seeing anything in any of your businesses that might be indicating an economic slowdown perhaps on the commercial side or elsewhere?

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

This is Jim. I think we're going to -- we haven't seen anything really yet if we're going to see something that's probably going to show up first on the Commercial segment. And I think that will just -- we are in industries, one of which is financial services, which is going through some challenges, one of which is oil and gas and energy, which is doing well. So I think we'll have to see how that all plays out. But at this stage, we're not seeing anything that causes us to have -- we're being cautious in terms of acknowledging that there's likely to be some weakness in some place. But I think if it shows up, first, it will show up on the commercial side. To the extent that we are aware, it hasn't really shown up yet.

On the health and education side, we're not seeing it yet, and I don't -- we don't anticipate it unless something really material happens either with the economy or if there's some other type of pandemic that comes up again. But otherwise, those 2 industries seem to be going pretty well and we feel pretty confident about our estimates for the coming year.

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

Yes. In our distressed business, our restructuring turnaround business has certainly seen increased inbounds as the years progressed and they're utilization has gone up quite a bit as we enter the fourth quarter here. So that's a part of our portfolio that we expect to get busier throughout the remainder of this year and the early part of next year, if there are uncertain economic conditions.

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

Okay. And Jim, let me add my congratulations. I'm glad you'll be part of Huron going forward and certainly enjoyed working with you.

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

Kevin, same to you, thank you very much at kind words. Thank you. I enjoyed working with you as well.

Operator

(Operator Instructions) I'm not showing any further questions at this time. I'd like to turn the program back to Jim Roth for any further remarks.

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

Thank you all for spending time with us this afternoon. Mark and John, look forward to speaking with you again, (inaudible). Have a good evening.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.