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HURN.OQ - Q4 2023 Huron Consulting Group Inc Earnings Call

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## PRESENTATION

**Operator**

Good afternoon, and welcome to Huron Consulting Group's Webcast to Discuss Financial Results for the Fourth Quarter and Full Year of 2023. (Operator Instructions) As a reminder, this conference call is being recorded.

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

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

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

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

Good afternoon, and welcome to Huron Consulting Group's Fourth Quarter and Full Year 2023 Earnings Call. With me today are John Kelly, our Chief Financial Officer; and Ronnie Dail, our Chief Operating Officer.

Driven by strong growth across all 3 operating segments in 2023, we achieved record revenues and expanded our operating margins for the third consecutive year. Our fourth quarter performance was consistent with our expectations, culminating in record financial performance for full year 2023.

Revenues in the fourth quarter and full year 2023 grew 8% and 20%, respectively. In 2023, our Consulting and Managed Services capability, which represents over half of our revenues, grew 23%, while our Digital capability grew 17%, achieving revenue that is approaching $600 million and represented 43% of our revenues across all 3 operating segments.

Full year adjusted EBITDA margins improved 70 basis points over the prior year, reflecting continued progress toward our objective of returning to mid-teen EBITDA margins by 2025, and our strong cash flow enabled us to return $124 million to shareholders via share repurchases in 2023 while maintaining a strong financial position.

Our financial performance demonstrates the strength of the foundation we've established under our integrated go-to-market model to continue delivering on our medium-term investor objectives. Our deep industry expertise and leading market positions in health care and education, our expanding presence in commercial industries and our growing portfolio of digital capabilities positions us well to meet or exceed our medium-term financial objectives for low double-digit revenue growth and increased profitability.

Now I'll discuss our fourth quarter and full year 2023 performance along with our expectations for 2024.

In the fourth quarter of 2023, Healthcare segment revenue grew 12% over the prior year quarter, reflecting the strong demand across our digital strategy and innovation, performance improvement and financial advisory offerings. On a full year basis, the Healthcare segment achieved record revenues of $674 million, growing 26% over 2022. Demand was widespread across our performance improvement, digital, financial advisory, strategy and innovation, and managed services offerings.

Our Consulting and Managed Services revenues increased 30% and Digital capability revenues increased 16% over the prior year. We continue to diversify our portfolio to meet the expanding needs of our health care clients and build a strong foundation for ongoing growth for this segment.

As I mentioned on our last earnings call, the operating environment for health care providers began to improve in 2023. Despite some improvements in the overall patient volume, many health systems continue to face significant financial pressures. A confluence of labor-driven financial and operating challenges, combined with increasing competition, deteriorating payer mix and inflationary and interest rate headwinds, create challenges for health system business models. We believe these market pressures create opportunities for our diverse set of health care offerings. The investments we've made and will continue to make in innovation, new services, products and partnerships positions our Healthcare segment well to continued growth in 2024.

Turning now to the Education segment. In the fourth quarter of 2023, Education segment revenues increased 7% over the prior year quarter primarily driven by demand for our digital offerings. Annual revenues in the segment grew 19% compared to 2022, achieving record revenues of $430 million. For the full year, demand was broad-based, with our Digital revenues and Consulting and Managed Services revenues increasing 28% and 12%, respectively, over 2022. We believe the solid demand for our digital, research and strategy and operations offerings will remain strong as higher-education institutions face continued financial and operational challenges.

The frequently mentioned demographic challenges leading to declining numbers of college-bound students creates a highly competitive environment for admissions. Similar to our health care clients, increased labor and facilities costs, unfunded government mandates, and the increased reliance on digital platforms, create financial pressures and challenges to the achievement of university admissions. Huron's well-established reputation, long history of proven results and deep client relationships makes us one of the most trusted advisers to the industry, which we believe positions us well to support our clients through the diverse set of challenges faced by the higher education industry.

Before I turn to the Commercial segment, I would like to highlight the recently announced investment we will make to accelerate our growth in our mission-driven end markets, which is a key pillar of our strategy.

Earlier this month, we announced our intent to acquire GG+A, a leading philanthropy-focused management consulting firm, serves education institutions and health care, arts and other non-profit organizations. This acquisition strengthens our philanthropic consulting offerings, complements our advancement-focused digital services and creates new pathways for us to serve our mission-driven clients. And we expect the transaction to close next month.

Now turning to the Commercial segment. In the fourth quarter of 2023, Commercial segment revenues were flat over the prior year quarter primarily attributable to growth of our digital offerings, offset by declines in our strategy and innovation offerings. On a full year basis, Commercial segment revenues grew 9% year-over-year. The growth was broad-based as our Consulting and Managed Services capability and Digital capability grew 13% and 7%, respectively. A standout performer within the Commercial segment was our financial advisory business, which grew 68% for 2022, driven by strong demand for our restructuring and turnaround offerings.

The uncertainties in the broader macroeconomic environment, including rising interest rates, inflationary pressures and geopolitical risks, have created unique challenges, particularly among some of our mid-market commercial clients. As is often the case, an uncertain economic environment leads many organizations should take a more cautious approach to executing large-scale initiatives. This created mixed demand for our offerings in 2023.

Our financial advisory offerings were in strong demand during the past year as many organizations facing financial distress sought our expertise. Our digital offerings grew more slowly as some organizations were more cautious about their spending on large-scale digital initiatives. We were now seeing positive indicators that demand for commercial digital projects is improving as we begin 2024.

Our growth in 2023 demonstrates the importance of our balanced commercial portfolio. We remain focused on growing our presence in commercial industries by building more industry depth and expanding our capabilities while maintaining balance within the Commercial segment and across a more diversified enterprise platform.

Now let me turn to our expectations and guidance for 2024, which contemplates our pending acquisition of GG+A. Our revenue guidance for the year is $1.46 billion to $1.54 billion. We also expect adjusted EBITDA in the range of 12.8% to 13.3% of revenues and adjusted diluted earnings per share of $5.35 to $5.95; company-wide, guiding to 10% revenue growth at the midpoint for 2024.

We're proud of the significant growth we achieved in 2022 and 2023, and we believe demand for our portfolio of offerings will continue through 2024. We remain focused on achieving low double-digit annual revenue growth objective that we established at our 2022 Investor Day while pursuing opportunities to accelerate growth beyond those goals as demonstrated in recent years.

In terms of margins, the midpoint of our 2024 guidance, we expect a 70 basis point improvement over 2023, building off the collective 150 basis point improvement achieved in 2022 and 2023. The midpoint of our guided adjusted earnings per share range of $5.35 to $5.95 per share is actually 116% higher than our 2021 adjusted EPS of $2.61, which reflects the compounding impact of revenue growth, margin expansion and return to shareholders via share repurchases.

We remain committed to achieving our financial objectives for sustainable revenue growth and improve profitability. And to deliver these objectives, we remain focused in 5 key areas: first, accelerating growth in our core end markets of health care and education; second, expanding our growing commercial business; third, advancing our global digital technology and analytics platform; fourth, broadening our offerings and capabilities to build a sustainable base from which to drive consistent revenue growth and margin expansion; and fifth, strategically deploying capital to invest in the areas of our business with the greatest growth potential while returning capital to shareholders.

Our growth strategy has delivered strong results in recent years, and we believe it will continue to be the foundation from which we will achieve top and bottom line growth for the future. Each of the pillars of our full strategy reinforced to build upon one another. And when executed together, it will help us enhance our ability to deliver on our clients' most complex challenges, strengthen our competitive advantage and create value for our shareholders.

2023 was a record year for Huron, and these results are only possible because of our incredibly talented team and their commitment to making a lasting impact on our clients and our business. Huron has always had a vibrant and collaborative culture and that culture remains at the heart of our success. Together, we've collectively built a client-centric culture and supportive work environment, which was reflected by Huron securing the 32nd position out of 100 on Glassdoor's Best Places to Work U.S. Large Companies list. The Glassdoor rankings and our financial results demonstrate the considerable impact our team has had on Huron's performance.

We won't take our recent success for granted. We remain focused on executing our strategy. We're excited about our prospects for 2024 as we strengthen our competitive position to take advantage of the market opportunities that lie ahead.

And now before I lose my words, I'm going to turn it over to John for a more detailed discussion of our financial results. John?

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

Thank you, Mark, and good afternoon, everyone. Before I begin, please note that I will be discussing non-GAAP financial measures, such as EBITDA, adjusted EBITDA, adjusted net income, adjusted EPS and free cash flow. The press release, 10-K and Investor Relations page on Huron's 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.

I'd first like to touch on two housekeeping items before discussing our financial results for the quarter. First, earlier this month, we announced our intent to acquire GG+A. We expect that transaction to close in the first quarter of 2024, and as such, it is not included in our fourth quarter results. The acquisition of GG+A will strengthen our industry expertise and expand our consulting offerings to help our mission-driven clients build and accelerate their philanthropic programs.

Second, let me provide a brief comment on a note in our press release. GAAP net income includes a noncash unrealized loss of $19.4 million, net of tax, during the quarter related to our investment in a hospital-at-home company. As a reminder, in 2019, we invested $5 million in a hospital-at-home company as a strategic investment that has annually produced meaningful implementation projects for our Healthcare segment. In the first quarter of 2022, we recognized a noncash unrealized gain on this investment of $19.8 million, net of tax, based on the valuation established in a round of financing that closed that quarter.

In the fourth quarter of 2023, the company recorded a noncash impairment loss of $19.4 million, net of tax, on the investment, essentially reversing the 2022 gain based on the valuation established in the new round of financing expected to close in early 2024. As of December 31, 2023, the investment's carrying value was $7.4 million, reflecting a net unrealized gain of $2.4 million on the investment since inception. Huron's ownership percentage in this hospital-at-home company is less than 5%.

Now I'll share some of the key financial results for the quarter and full year 2023.

Revenues for the fourth quarter of 2023 were $339.2 million, up 8.1% from $313.7 million in the same quarter of 2022. The increase in revenues in the quarter was driven by growth in the Healthcare and Education segments. In addition, our digital capability posted strong growth across all 3 segments. For the full year 2023, revenue was $1.362 billion, up 20.3% from $1.132 billion in 2022. We achieved record revenues in 2023, reflecting broad-based demand of our portfolio of offerings across all 3 operating segments.

Our performance in 2023 also reflects strong execution on the key elements of our growth strategy: accelerating growth in health care and education, expanding our presence in commercial industries and further growing our digital capability.

Net income for the fourth quarter of 2023 was $2.8 million or $0.15 per diluted share compared to net income of $17.1 million or $0.85 per diluted share in the fourth quarter of 2022 and reflects the noncash unrealized loss of $19.4 million, net of tax, or $1 per diluted earnings per share related to our investment in a hospital-at-home company, as discussed earlier. For full year 2023, net income was $62.5 million or $3.19 per diluted share. This compares to net income of $75.6 million or $3.64 per diluted share in 2022. Both periods reflect the impact of noncash changes in fair value related to our investment in a hospital-at-home company, as discussed earlier.

Our effective income tax rate in the fourth quarter of 2023 was negative 60.2%, which is more favorable than the statutory rate, inclusive of state income taxes, primarily due to a tax benefit related to nontaxable gains and the investments used to fund our deferred compensation liability and a discrete tax benefit for share-based compensation awards that vested during the quarter and the positive impact of certain federal tax credits. On a full year basis, our effective income tax rate for 2023 was 25.5%, which is more favorable than the statutory rate, inclusive of state income taxes, primarily due to a discrete tax benefit for share-based compensation awards that vested during the year and positive impact of certain federal tax credits. These favorable items were partially offset by certain nondeductible expense items.

Adjusted EBITDA was $41.4 million in Q4 2023 or 12.2% of revenues compared to $39 million in Q4 2022 to 12.4% of revenues. For full year 2023, adjusted EBITDA as a percentage of revenues increased 70 basis points to 12.3% compared to 11.6% in 2022. The increase in full year adjusted EBITDA reflects higher consulting utilization, improved pricing, expanded deployment of our global delivery capabilities and lower corporate SG&A

expense as a percentage of revenues in 2023 compared to 2022 after adjusting for the impact of our deferred compensation plan liability. Partially offsetting these factors is continued investment in the growth of our business and increased bonus compensation related to the strong performances across our business.

Adjusted net income was $25.1 million or $1.29 per diluted share compared to $22.6 million or $1.12 per diluted share in the fourth quarter of 2022. For the full year 2023, adjusted net income was $96.2 million or $4.91 per diluted share compared with $71.1 million or $3.43 per diluted share in 2022.

Now I'll discuss the performance of each of our operating segments.

The Healthcare segment generated 51% of total company revenues during the fourth quarter of 2023. The segment posted revenues of $172 million, up $18.7 million or 12.2% from the fourth quarter of 2022. The increase in revenues in the quarter was driven by strong demand for our digital, strategy and innovation, performance improvement and financial advisory offerings. On a full year basis, Healthcare revenue increased 26% to $674 million compared to $535 million in 2022, also driven by strong demand for our performance improvement and digital offerings as well as our financial advisory and strategy and innovation offerings. In 2023, Consulting and Managed Services capabilities in Healthcare, which is our largest capability company-wide, grew 30%.

Operating income margin for Healthcare was 25.9% in both Q4 2023 and Q4 2022. On a full year basis, the Healthcare segment's operating income margin was 25.7% compared to 24.5% in 2022. The increase in operating income margin year-over-year was primarily due to revenue growth outpacing compensation costs for our revenue-generating professionals, partially offset by an increase in contractor expenses.

The Education segment generated 31% of total company revenues during the fourth quarter of 2023. The Education segment posted revenues of $103.8 million, up $7.2 million or 7.4% from the fourth quarter of 2022. The increase in revenues in the quarter was primarily driven by demand for our digital offerings. On a full year basis, Education segment revenues grew 19.4% year-over-year driven by demand for our technology and analytics services and software products within our digital capability as well as increased demand for our strategy, operations and research solutions within our Consulting and Managed Services capability.

The operating income margin for Education was 21.2% in Q4 2023 compared to 20.8% for the same quarter in 2022. The increase in operating income margin in the quarter was primarily driven by decreased restructuring and contractor expenses partially offset by increased compensation costs for our revenue-generating professionals. On a full year basis, operating income margin was 23.1% compared to 21.9% in 2022 primarily due to a decrease in contractor expenses partially offset by increases in compensation costs for our revenue-generating professionals' technology expenses.

The Commercial segment generated 18% of total company revenues during the fourth quarter of 2023 and posted revenues of $63.5 million compared to $63.8 million in the fourth quarter of 2022. On a full year basis, Commercial segment revenues increased 8.7% to $258.4 million compared to $237.6 million in 2022. The increase in full year revenues was driven by strong demand for our financial advisory and digital offerings.

Operating income margin for the Commercial segment was 22.4% for Q4 2023 compared to 18.4% for the same quarter in 2022. The increase in operating income margin in the quarter was primarily driven by decreases in compensation costs for our revenue-generating professionals and contractor expenses. On a full year basis, Commercial segment operating income margin was relatively even at 21% in 2023 compared to 21.1% in 2022.

Corporate expense is not allocated at the segment level and, excluding restructuring charges, were $45.2 million in Q4 2023 compared to $40.1 million in Q4 2022. Unallocated corporate expenses in the fourth quarter of 2023 and 2022 included $3.2 million and $1.8 million, respectively, of expense related to the increase in the liability of our deferred compensation plan, which is offset by the investment gain on the assets used to fund that plan reflected in other income. Excluding the impact of the deferred compensation plan in both periods, unallocated corporate expenses increased $3.7 million primarily due to increased compensation costs for our support personnel and third-party professional services expenses. On a full year basis, corporate expenses not allocated at the segment level increased to $174.8 million, including $5.5 million of expense related to the deferred compensation plan compared to $136.5 million of unallocated corporate expenses in 2022, which included a $6.9 million reduction of expense related to the deferred compensation plan.

Excluding the impact of the deferred compensation plan in both periods, unallocated corporate expenses increased $25.9 million primarily driven by an increase in compensation costs for our support personnel as well as increases in third-party professional services expenses and software and data hosting expenses.

Now turning to the balance sheet and cash flows.

Total debt as of December 31, 2023, was $324 million, consisting entirely of our senior bank debt. We finished the year with cash of $12.1 million for a net debt of $311.9 million. This was a $36.8 million decrease in net debt compared to Q3 2023.

The fourth quarter included $34.9 million of share repurchases or approximately 345,000 shares.

Our leverage ratio, as defined in our senior bank agreement, was 1.6x adjusted EBITDA as of December 31, 2023, compared to 1.9x adjusted EBITDA as of December 31, 2022.

Cash flow generated from operations for 2023 was $135.3 million. We used $35.2 million of our cash to invest in capital expenditures, inclusive of internally developed software costs, purchases of property and equipment, resulting in a free cash flow of $100.1 million.

In addition, in 2023, we used $123.6 million to repurchase approximately 1.5 million shares, representing 7.4% of our outstanding shares as of the beginning of the year, and we used $1.6 million for strategic tuck-in acquisitions. As of December 31, 2023, $86.2 million remained available for share repurchases under our current share repurchase program.

DSO came in at 87 days for the fourth quarter of 2023 compared to 83 days for the third quarter of 2023 and 77 days for the fourth quarter of 2022. The increase in DSO during the fourth quarter when compared to the third quarter reflects the impact of contractual payment schedules for certain larger health care projects.

Today, we also announced that we have amended our senior secured credit facility to include a $275 million term loan in addition to our existing $600 million revolving credit facility, both of which matured November 2027. The proceeds from the term loan will be used to reduce borrowings under the company's revolving credit facility, which increases the company's capacity for investment by $275 million. This expanded capacity will enable us to continue executing on our balanced capital deployment strategy, inclusive of strategic tuck-in acquisitions, and returning capital to shareholders through targeted share repurchases.

Finally, let me turn to our expectations and guidance for 2024, which contemplates our pending acquisition of GG+A.

For the full year 2024, we anticipate revenues before reimbursable expenses in the range of $1.46 billion to $1.54 billion, adjusted EBITDA in the range of 12.8% to 13.3% of revenues and adjusted non-GAAP EPS in a range of $5.35 to $5.95.

We expect cash flows from operations to be in the range of $155 million to $185 million. Capital expenditures are expected to be approximately $40 million, inclusive of cost to develop our market-facing products and analytical tools. And free cash flows are expected to be in the range of $115 million to $145 million, net of cash taxes and interest, and excluding noncash stock compensation. Weighted average diluted share count for 2024 is expected to be in the range of 19 million to 19.5 million shares.

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

Let me add some color to our guidance, starting with revenue. The midpoint of the revenue range reflects 10% growth over 2023. As Mark mentioned, while we are proud of the accelerated 20%-plus growth we achieved in 2022 and 2023, we believe that our guidance aligns with a more normalized level of growth for our business and is consistent with our previously stated medium-term financial objectives.

We remain focused on executing our growth strategy across all segments of our business and have fully aligned the incentives for all of our managing directors and principals with our strategic goals and integrated operating model.

With regard to our Healthcare segment, we expect mid- to high single-digit percentage revenue growth for the full year 2024, and we expect operating margins will be in the range of 25% to 27%.

In the Education segment, we expect low-teen percentage revenue growth for full year 2024, inclusive of a mid- to high-teen million-dollar contribution for 10 months of GG+A, and we expect operating margins will be in a range of approximately 24% to 26%.

In the Commercial segment, we expect to see low double-digit percentage revenue growth for 2022. We expect our operating margins in this segment to be in the range of approximately 21% and 23%. We expect unallocated corporate SG&A, [excluding the impact of the deferred compensation plan,] (added by the company after the call) to increase in the low to mid-single-digit percentage range year-over-year.

Also in the first quarter, consistent with prior years, we note the following items as it relates to expenses: the reset of wage basis for FICA and our 401(k) match, our annual merit and promotion wage increases go into effect on January 1 and an increase in stock compensation expense for restricted stock awards that will be granted in March to retirement-eligible employees. Based on these factors, we anticipate approximately 15% to 20% of our full year adjusted EBITDA and full year adjusted EPS to be generated during the first quarter, consistent with the pattern we have seen for the last several years.

As a closing reminder, with respect to 2024 adjusted EBITDA, adjusted net income and adjusted EPS, there are several items that you will need to consider when reconciling these non-GAAP measures to comparable GAAP measures. The reconciliation schedules that we included in our press release will help walk you through these reconciliations.

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

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from the line of Tobey Sommer of Truist Securities.

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

I was curious if you could speak to your medium-term financial targets laid out at Investor Day. It's been, I don't know, for exactly at the midpoint between when you gave them and when they'll ultimately be rendered. But how do you feel about those, in particular, the EBITDA margin figure?

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

Tobey, it's John. So we feel good about our progress against those medium-term financial objectives that we established in our Investor Day back in 2022. Certainly, I think if you're looking at it from the perspective of EBITDA dollars and adjusted EPS, we feel like we're pacing ahead of the projections that we talked about during that Investor Day.

I think the mix has maybe been a little bit different than what we might have projected at that point in time. The growth has been much stronger. So we talked about low double-digit growth, and our growth has actually been in excess of 20% in the past couple of years. And related to that growth, we needed to continue to invest in our talent and our team to build out the resources to be able to deliver on that growth. And I think that's put a little bit of pressure on the margin percent. So the net-net has us ahead in terms of the EBITDA dollars in terms of the adjusted EPS, but the mix has probably been a little bit different.

I think going forward, from where we're at, we still feel good about our ability to meet or beat those revenue objectives. And I think we feel really good about our guidance for 2024 from a margin perspective. And our focus will be on meeting or beating those margin percent objectives for 2024 which, at the top end, would be in the low-13% range. And if we're able to continue to execute and have a similar sort of step next year, I think that will get us comfortably into kind of that 14%-plus range for the mid-teen range at that point in time. But that's kind of the outlook halfway through.

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

Yes. Maybe, Tobey, I'll add one comment to that just to say, when you look at the drivers, say, okay, what is it that we're doing that enables us to achieve those things. We've made really good progress on utilization. We have room to run there. The pricing work that we've been doing is probably not fully baked in yet to everything we're doing across the enterprise. Our global delivery model continues to expand and then just continuing scaling our corporate SG&A. So we've got a lot of levers still that we're pretty confident in. As John said, it's just the growth has created some headwinds, but we think we're going to get there. It will probably be in that 14%-plus range into 2025.

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

Your hospital customers, what are you hearing from them in terms of how long they expect activity to remain at elevated levels and therefore, some of them are doing fine from a profitability perspective before that activity level normalizes? And maybe in the context of that answer, you could speak to what you're seeing from an assessment perspective in your PI offering.

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

Sure, Tobey. This is Mark. I'll keep talking as long as my voice holds up. As I noted in the script, we started to see some improvement across the industry toward the latter half of 2023. There really is, I would say, a mixed story coming into 2024. So you have those systems, I think, that have actually done a pretty good job of recovering. And we're seeing them continuing to spend, but they're spending on the growth aspect is what they're trying to do. They're trying to enhance their traditional platforms and things that are perhaps more procyclical in nature, and we've repositioned our portfolio very well to be able to play both on the up and down aspects of that.

But having said that, there's still a number of clients. And we are quite busy on a number of assessments coming into 2024 for those clients who are still facing ongoing challenges. So by no means do we think that demand is going to run out of the cycle here. We feel that 2024 will be just continuing to evolve. That's kind of reflected in the pipeline.

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

Right. Yes, that's right, Mark. If we look at the pipeline, what gives us confidence in our guidance for the year and the continued growth really is an evolving mix where we've got still plenty of projects in the pipeline that relate to clients that are going through some level of financial strain and are seeking performance improvement help. But now we're seeing increased pipeline activity related to some of our other offerings, which, as Mark said, are more procyclical like our strategy offerings, our non-distressed financial advisory offerings and then critically, really, the digital offerings, which I think a lot of clients at this point are now seeking to invest funds in their technology platforms and really try to modernize those to help them operate more efficiently, to help them better get actionable insight from their data to protect their data, to automate as many processes as possible in a high labor cost environment. So we're seeing a nice mix of projects right now that really reflect both dynamics going on in the market.

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

Okay. Two things for me, and I'll get back to the queue. Could you speak to why expand liquidity now? And then John, if you could, what is the inorganic contribution to EBITDA and EPS in the initial guidance?

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

Sure, Tobey. So the first question about why expanding the borrowing capacity now, it really just have to do with the significant growth we've seen in the company over the past couple of years. When we first entered into our $600 million revolving credit facility, that was really designed to support 3.7x EBITDA leverage, so our trailing 12-month bank definition in EBITDA. And having seen our EBITDA practically double since 2021, that has significantly cut into our capacity on the $600 million revolver. So really adding the $275 million term loan, that just kind of gets us back to the capacity that we originally had on a leverage basis given the much bigger size of the company now.

So from our perspective, in terms of capital deployment strategy with that extra capacity, I think it's the same messaging. I think you're going to see some mix of strategic tuck-in acquisitions as a result of our programmatic M&A process as well as continued targeted share buybacks. But we just felt like, given our increased size, that we needed some more capacity.

And then as far as GG+A on the guide, I commented from a revenue perspective, given it's a partial year, kind of high-teen million-dollar revenue. I'd expect that to flow through at the same percent as our overall corporate EBITDA percentage just given that there will be some transition-type expenses during the first year. And then from an EPS perspective, it's accretive. But in this first partial year, it's pretty minimal from an EPS perspective.

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**Operator**

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

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

I wanted to double-back on the margin conversation, a pretty good expansion that you expect here in '24. I think, Mark, you highlighted a few things where there's more room to run between utilization and pricing and the delivery model. I'm just wondering if there's any way to maybe split up the 70 or 80 basis points of expansion across some of those drivers. Like, what is the primary set of drivers in '24? And maybe related to that, how much of this is maybe expecting a pullback in head count growth and some improved utilization as we progress through the year?

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

Andrew, I don't know if I would describe it as a pullback in head count growth. I think what you'll probably see from a head count growth perspective, in the base case this year, the head count growth will be generally in line with revenue growth. I think in terms of the breakout of that 70 basis points of improvement, between the key things that Mark mentioned, utilization, pricing and then SG&A leverage, that's actually more than 70 basis points of improvement that we're expecting. And then on the flip side of that, we do expect to continue to invest in our business, continuing to add talent in new areas to keep the growth going. So I think the initiatives that we have underway actually contribute more than 70 basis points margin improvement, and then we do expect to invest some of that back in the business.

So think of those investments as 100 basis points of investment. So if you're thinking of them, okay, between 150 basis points to 200 basis points of operational efficiency improvement, I'd say that that's about split 50-50 between some of our pricing and utilization objectives as well as continued global deployment of our India team and then just some of the natural scaling of SG&A that we expect to experience this year.

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

Great. That's helpful. And then you mentioned, I think, briefly some pickup in Innosight and some of the strategy pieces. Can you unpack that a little bit more? And are there particular end markets where that is strongest? And how much of that recovery are you baking in for '24?

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

Yes. Andrew, it's Mark. I would say that in 2023, what we saw for Innosight, a little bit slower start to the year, but really what we were very excited to see was very good strength in the health care market and really in conjunction with working across our teams, so very, very much kind of integrated into our overall delivery. At the same time, some of the industrial areas that we've had great strength had a little bit quieter year. But coming into '24, we feel like they have a very strong pipeline across both sides of that business, and we're excited about just the good recovery into 2024.

**Operator**

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

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

Guys, another terrific year in the books. I was curious on the refi, John. Did you mention kind of how to think about interest expense with the change?

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

The change is really pretty minimal, Bill. If you think about the funds flow on it, we added a $275 million term loan, but then we used the proceeds from that term loan to immediately pay down the revolver. So it's really about adding capacity. There'll be some minimal incremental expense related to just the fees of establishing that as well as now some more unused fees on the revolving credit facility, but that will be pretty minimal in the scheme of things.

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

Okay. I wasn't sure if there was -- I don't think you mentioned if there's any change in rates.

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

So Bill, there's a 50 basis point additional spread on the term that we just think is more reflective of the market right now versus when we were able to lock in the revolving credit facility. But again, probably, in the scheme of things, that will be pretty minimal. We did also, in the early first quarter, do an interest rate swap that we're able to lock in some more short-term savings versus the silver spot rate right now. That largely offsets any of that additional expense in 2024.

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

Okay. John, when you were talking about the drivers for the '23 segment results, it was interesting, on Education, you mentioned Digital. And then for the year, there was the other parts of the business that seem to be important. Was Digital just kind of the centerpiece of the fourth quarter? Or am I reading too much into it? And I'm curious how you're thinking about the offerings in Education contributing to '24's outlook.

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

The fourth quarter, it was broad-based demand, Bill. I would say that the leader in the clubhouse though was the digital offerings during the fourth quarter, which is why we highlighted it. But our consulting offering as well as our managed service offerings, which is a smaller base of revenue right now, they both also had healthy growth during the fourth quarter. And then if you pivot towards 2024, again, I think it's going to be a broad-based story in the Education business.

Clearly, from a digital perspective, we see clients investing in, what many institutions right now are, dated, legacy technology infrastructure that really needs to get modernized to help those universities meet their missions. But then even beyond the digital side, on the consulting side, you'd probably see it quite a bit down in the headlines, a lot of the pressure that universities are under. And so some of our offerings that help our university partners enroll students, from a philanthropic perspective, that help them with their fundraising and then help them minimize risk and efficiently manage their research function. Those are all things that are very important to our education clients right now. So I think the growth we expect to see is pretty balanced across those areas.

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

Yes. And I'll just add, research as well. Research has been a very important part of our portfolio, continues to be the area that clients pay a lot of attention to because it's so important not only to the revenues but to their risk management around the research enterprise. So I think it's been a very balanced story. You may have quarters where one is a little bit ahead of another. But I would just say, from a demand backdrop, it's been a very consistent demand across all of them.

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

Right. No, it certainly has. And finally, I was just curious, as you look at your head count plans this year, are you weighting it heavily towards offshore? Is it going to be this kind of the same kind of mix?

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

I think it's going to be a similar mix to our total head count, Bill.

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

Okay. So that's not part of the 150 to 200 bps.

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

So there is continued increased utilization out of the team. The global delivery team in India is part of the margin story. But if you look at our head count as of 12/31/2023, it's about 70% in North America and about 30% in India. When we look at our head count modeling for the year, I don't think we expect any big shift in that percentage. It could be a little bit more weighted towards India, but it will be modest. I think it's going to be pretty balanced.

**Operator**

(Operator Instructions) Next question comes from the line of Kevin Steinke of Barrington Research Associates.

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

So I just wanted to ask about the Education segment, certainly another strong year and solid fourth quarter. We did see a sequential dip in revenue fourth quarter versus third quarter. I guess we've kind of gotten spoiled by these continually sequential increases, although it's kind of flattened out third quarter versus second quarter. But is there anything to note there in terms of timing of projects or anything that might have led to that sequential change fourth quarter versus third quarter?

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

Kevin, it's largely just related to business days and holidays during the fourth quarter. We see it across the entire business. There's always less effective business days in the fourth quarter than there are in other quarters. Within Education, just based on our client schedules, sometimes that can be even a little bit more pronounced, and that's all that you're seeing. As I said in my remarks, we're expecting low-teens growth for next year, so we feel good about the growth trajectory in the Education segment.

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

Okay. Great. So just following up on the GG+A acquisition, maybe just a little more color on what attracted you to that business and how it fits in. And I guess just lastly, in the Education segment, so I'm assuming it predominantly serves education institutions, but you also mentioned health care and nonprofit, just also trying to get a sense for the business mix there.

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

Yes, Kevin, this is Mark. We're very excited about the GG+A acquisition, that John Glier is joining us as well and continue to be very active in the market. You noted correctly that their position in education, they actually do serve non-profit much more broadly. And also on a global basis, they have clients in Europe as well. And so as an example, what we believe will be the pitch here, obviously, philanthropy is a huge lever within higher education to drive their revenue. But at the same time, it really gives an opportunity for us to bring some of our digital solutions and enablement to advancement function. It's just been a great area of momentum for us from a sales force point of view. And we think the combination of that, their expertise around the whole advancement function will be highly accretive to us. So we think it's well positioned.

And then at the same time, because of our operating model, that really enables us to bring solutions across lines. We feel that as we have opportunities, whether it's in health care or even outside of health care, not-for-profit more generally, we'll have nearly very full ability to take advantage of the full scope and scale of that acquisition.

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

Okay. Great. John, I think when you're talking about the progression towards the mid-teens margin target by 2025, you mentioned mix has been maybe a little bit different than you would have expected. Were you referring to a mix of digital versus consulting? Or what was that comment targeted at?

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

Thanks for asking, Kevin. And to clarify, I was more referring to the mix to get to the increase in adjusted EBITDA dollars and adjusted EPS that we've seen. Now that's, at this point, pacing significantly ahead of our Investor Day targets. And the path to getting to those increased EBITDA dollar amount and increased EPS amount, the mix has been a little bit more towards higher growth than what we had initially projected with a little bit of pressure on the margin percent just as we've been investing in our team to deliver that growth. So I was speaking about the two levers of revenue growth versus margin percent in getting to the nice results we've had from an increased EBITDA dollars and adjusted EPS.

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

Okay. Understood. And then lastly, you mentioned continued ramp or greater utilization of your staff in India as one of the margin drivers going forward. Can you just update us on utilization there and plans to build out the team there, et cetera?

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

I think, John, I'll tag team on this one. So let me just tell you, I think from an expansion standpoint, we're really happy with how that team has been built out. And the way we do this is not in an offshore capability. We really run the business truly on a global integrated basis by each service line. So our team in India and our team in the U.S., we consider part of one unit line team, and their goal is to optimize their performance in the market together. So at the time, we continued to expand that to other areas of service line. We've had a small team, as an example, in our business advisory practice doing some consulting support, around financial advisory engagement, has had great success and impact. But more broadly, in terms of just the utilization numbers and sales, let me ask John to just give you an update.

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

Yes. Kevin, that's been a really great story for us as the year has progressed. So as you may recall, at the end of 2022, we have made some targeted investments in our team in India to really build out our capacity there in anticipation of growth. And part of that investment was we experienced some lower utilization in the back half of last year and into really the first quarter of this year. We've seen that utilization steadily increase over the course of the year. And by the time we got to the fourth quarter, it's very much in line with our overall utilization, which I would note, for the fourth quarter, was in the 78% to 79% range overall as a company, which is really one of the strongest utilization metrics we posted that I can remember and definitely gives us encouragement about the margins heading into next year as we expect to continue to operate at roughly that level heading into 2024.

**Operator**

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

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

Thank you very much for joining us this afternoon. We look forward to speaking with you again in April when we announce our first quarter results. Have a good evening.

**Operator**

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