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HURN.OQ - Q3 2025 Huron Consulting Group Inc Earnings Call

EVENT DATE/TIME: OCTOBER 28, 2025 / 9:00PM GMT

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## PRESENTATION

**Operator**

Good afternoon, and welcome to Huron Consulting Group's webcast to discuss financial results for the third quarter 2025. (Operator Instructions) As a reminder, this conference call is being recorded.

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

The news release is posted on Huron's website. Please review that information. Along with the filings with the SEC for a disclosure of factors that may impact subjects discussed in this afternoon's webcast. The company will be discussing one or more non-GAAP financial measures. Please look at the earnings release and on Huron's website for all of the disclosures required by the SEC, including reconciliation to the most comparable GAAP numbers.

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

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

Good afternoon, and welcome to Huron Consulting Group's third quarter 2025 earnings call. With me today are John Kelly, our Chief Financial Officer; and Ronnie Dail, our Chief Operating Officer.

Our third quarter performance was strong, driven by growth across all three operating segments. Company-wide revenues before reimbursable expenses or RBR grew 17% in the third quarter including 10% organic growth, reflecting a robust demand environment for our services and strong execution by our teams.

We're also pleased with our continued margin expansion and earnings per share growth in the third quarter consistent with our financial goals. The combination of our deep industry expertise and breadth of capabilities has positioned us as a partner of choice for our clients as they continue to face persistent financial challenges and regulatory disruption.

We believe strong demand across our core end markets positions us well to achieve our full year 2025 RBR in the earnings guidance of establishing a solid base for continued growth in 2026.

I'll now share some additional insights into our third quarter performance. In the Healthcare segment, we achieved record RBR during the third quarter. Growing 20% over the third quarter of 2024. Organic Healthcare segment RBR grew 19% over the third quarter of 2024, excluding the results of our recent acquisition of Eclipse Insights, as well as the Studer Education business, which was divested at the end of 2024.

The increase in RBR in the quarter was driven by broad-based demand across the entire segment, including our performance improvement, financial advisory, revenue cycle managed services, strategy and innovation, and digital offerings. Third quarter RBR or Healthcare consulting and managed services capability grew 27% over the third quarter of 2024.

Demand for our performance improvement offerings remains robust across the market. And we believe this is the strongest environment for our performance improvement offerings we have seen.

In addition to record revenue growth, we've also seen continued strong pipeline and sales conversion, continuing at high levels in the third quarter and through the first month of the fourth quarter. Primary driver of demand for our health care offerings is continued margin pressure for our Healthcare provider clients. A proven track record of delivering demonstrable ROI for our clients, sets us apart from our competitors and positions Huron as a go-to trust and partner organizations experiencing financial strength.

Our performance improvement solutions have consistently delivered improved revenue and cash flow yield, reduced operating costs, and improved patient experience among key operating and financial metrics in addition to those. Increasingly, our performance improvement engagements have a broader scope, integrating our strategy, financial advisory and digital offerings, to better and more uniquely address our clients' challenges, and this has led to an increase in the average size of our health care engagements.

Hospitals and health systems continue to prepare for reduced funding and decreases in insured patient volumes, driven by shifts in the Medicaid reimbursement model. At the same time, pressures persist to improve access and evolved care delivery models in the face of workforce shortages. The combination of these factors creates an unsustainable operating environment for many organizations. And with the combination of these factors, health care providers are increasingly turning to Huron, we evaluate their strategic, financial, and operational options to strengthen their competitive positions. We continue to expand the use of AI and automation across our offerings to drive value creation for our clients and increase the efficiency of our service delivery.

We're increasingly advising our clients on how to govern and deploy the rapidly expanding array of AI and automation solutions available to them while partnering with them to deploy solutions that will yield demonstrable results and value.

We highlight an example within our revenue cycle managed services business, which has delivered 20% RBR growth in the first three quarters in 2025 compared to the year-to-date Q3 period last year.

Revenue cycle managed services can be delivered in conjunction with the consulting offerings or sold as a stand-alone offering, depending on the clients' needs. Revenue cycle Managed Services drive improved revenue cycle and yield and cost savings for our clients and are complementary to our revenue cycle consulting capability. Among many other AI and automation use cases, we've established and deployed machine learning models that have helped us lower our costs while boosting collections for clients.

The breadth of our offerings and our strong reputation in the market and along with our ability to deliver tangible results to our clients, positions us well to capitalize on robust market demand, as our clients address the ongoing financial pressures on margins and the changing regulatory and technology landscape.

Turning to Education segment, RBR also achieved a record growing 7% in the third quarter of 2025 over the prior year quarter. The increase in RBR in the quarter was driven by strong demand for our strategy and operations, research, and digital offerings.

Our education team has done a terrific job supporting our clients and sustaining our growth trajectory during this unprecedented time in the higher education industry. Many colleges and universities are managing the impact declines in research funding and lower enrollment in both domestic and international students as well as overall policy uncertainty.

Net tuition pricing pressures persist as students and parents seek affordable education and job training alternatives. And similar to our health care clients, our education clients are navigating through disruption and a strained financial environment. As a result, we're turning to Huron for health. Our comprehensive set of offerings, including performance improvement, spans the entire university, taking Huron the trusted partner of choice for clients looking for a partner who can comprehensively address these issues.

We continue to see robust demand for digital transformation projects and have been very pleased with our team's win rate in this area throughout the year. Our clients' investments in digital transformation are driven by the need to modernize their data and technology foundations and take advantage of newer technologies, including AI and automation.

One area that's particularly wide for AI and automation is research administration. We've seen this validated by the success of the solutions we've developed to date that enable administrative staff to focus on greater value-added activities, such as research compliance or managing more awards.

Let me share an example. We developed an AI offering to automate the input and processing of data across thousands of reps, drastically reducing the set of time freeing up research and administration capacity. While we're actively delivering these AI solutions to our clients directly, they can also incorporate the functionality into our research managed services offerings to optimize our delivery and so for growth.

Approving credentials, credit for offerings, and deep client relationships have positioned us very well to serve our education and research clients as they navigate this period of high disruption. We believe our strong positioning and competitive advantage in this industry will drive continued growth, consistent with the goals that we discussed at our Investor Day earlier this year.

Now let me turn to the Commercial segment. In the third quarter of 2025, we also achieved record RBR. Commercial segment RBR grew 27% over the prior year quarter. The increase in RBR was driven by our acquisitions of AXIA and Treliant as well as continued organic growth from our commercial digital business. This growth was partially offset by lower demand for our strategy and financial advisory offerings during the quarter. I will note, after both our strategy and financial advisory offerings, we've seen an inflection point in market demand and saw improved sales conversion over the course of the third quarter and into October.

Our commercial digital business has continued to grow despite a more challenging demand environment. And we further integrated our strategy and operations expertise across our consulting and digital capabilities, which has strengthened our competitive advantage and positioned us to drive above-average growth during the quarter.

During the quarter, we acquired Wilson Perumal & Company, a leading strategy and operations consulting firm serving the commercial markets. We believe the combination of Innosight's long-term strategy and innovation offerings and Wilson Perumal's strategic execution and operations focused offerings creates a more comprehensive platform for our clients to realize more immediate financial savings that could help drive transformation while they refine their strategies to deliver sustainable growth.

As we shared at our Investor Day, another pillar of our commercial strategy was to further integrate our commercial offerings to enhance our go-to-market strategy. We've seen significant advancement in this area, including several key wins that demonstrate our competitive advantage.

For example, we're one of the leading partners focused on helping CFOs transform their finance organizations. They become more impactful strategic partners in their businesses. Through advanced enterprise performance management capabilities and built upon these competencies by aligning our strategy consulting, data, AI, and automation expertise with our cloud EPM offerings to compete and win against some formidable incumbents and competitors.

We're also leveraging AI and advanced analytics to further enhance our competitive advantage while delivering increased value to our clients. For example, we're combining our deep manufacturing expertise for their data, AI, and broader technology capabilities to leverage predictive modeling for preventive maintenance, which has resulted in significant savings for one of our manufacturing clients.

While we remain in the early stages of execution of our integrated commercial strategy, our industry and capability strengths are already proving to be differentiated in our key end markets and offerings of focus.

Now let me turn to our outlook for the year. Today, we're updating our annual guidance by narrowing our RBR guidance to a range of $1.65 billion to $1.67 billion, affirming our adjusted EBITDA guidance range of 14% to 14.5% of RBR and increasing our adjusted non-GAAP EPS to a range of $7.50 to $7.70.

Midpoint of our RBR guidance reflects strong year-over-year growth in the fourth quarter, so we expect the underlying demand for our offerings across all segments will continue. In 2025, we demonstrated our ability to sustain accelerated RBR growth and margin expansion despite a more challenging macroeconomic and regulatory environments. Our market-tested strategy and durable balanced portfolio of offerings, coupled with disciplined execution, and continues to deliver strong financial performance for our business and our shareholders.

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

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

Thank you, Mark, and good afternoon, everyone. Before I begin, please note that I will be discussing non-GAAP financial measures such as EBITDA, adjusted EBITDA, adjusted net income, adjusted EPS, and free cash flow. Our press release, 10-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 why management believes they provide useful information to investors regarding our financial condition and operating results.

Before discussing our financial results for the quarter, I'd like to discuss several housekeeping items. First, our third quarter 2025 results in the Healthcare segment exclude the operating results from the Studer Education business, which was divested on December 31, 2024.

Our Healthcare segment results do include a full quarter of operating results from our acquisition of Eclipse Insights, which it closed in June of this year. And finally, we closed on the acquisitions of Treliant in Wilson Perumal in July and September of 2025, respectively. Commercial segment results for the third quarter of 2025, do include the results of Treliant and Wilson Perumal starting from the dates of their respective acquisitions.

Now, I will share some of the key financial results from the third quarter. RBR for the third quarter of 2025 was a record $432.4 million, up 16.8% from $370 million in the same quarter of 2024. Organic RBR, which excludes the RBR generated by all acquisitions completed subsequent to the third quarter of 2024 and the RBR generated by the Studer Education business in the third quarter of 2024 grew 10.2% over the prior year quarter, led by 18.6% organic RBR growth in our Healthcare segment.

As Mark mentioned, we achieved another quarter of record RBR, reflects robust market demand for our offerings and is a testament to our highly talented and dedicated teams and their ability to deliver high-quality, innovative offerings to our clients.

Net income for the third quarter of 2025 was $30.4 million or $1.71 per diluted share compared to net income of $27.1 million or $1.47 per diluted share in the third quarter of 2024. As a percentage of total revenues, net income decreased to 6.9% in the third quarter of 2025 compared to 7.2% in the third quarter of 2024.

Our effective income tax rate in the third quarter of 2025 was 28.7%, higher than the statutory rate, inclusive of state income taxes, primarily due to certain non-deductible expense items. We now expect an effective tax rate in the range of 23% to 25% for the full year.

Adjusted EBITDA was $67.4 million in Q3 2025 or 15.6% of RBR compared to $54.9 million or 14.8% of RBR in Q3 2024. The increase in adjusted EBITDA for the quarter was primarily due to increases in Healthcare and Education segment operating income, excluding the impact of segment depreciation and amortization and segment restructuring charges, partially offset by an increase in unallocated corporate expenses, excluding the impact of the change in the market value of our deferred compensation liability and transaction-related expenses and decreased commercial segment operating income.

Adjusted net income was $37.4 million, $2.10 per diluted share in Q3 2025 compared to $31.1 million or $1.68 per diluted share in the third quarter of 2024, resulting in a 25% increase in adjusted diluted earnings per share over Q3 2024.

Now I'll discuss the performance of each of our operating segments. The Healthcare segment generated 51% of total company RBR during the third quarter of 2025. This segment posted record RBR of $219.5 million, up $36.4 million or 19.9% from the third quarter of 2024. Third quarter of 2025 included an inorganic contribution of $6.5 million of RBR from our acquisitions, while 2024 included $3.4 million of RBR from the Studer Education business, which was divested in 2024.

Excluding the impact of these items, our organic growth rate in the Healthcare segment was 18.6% in the third quarter of 2025 compared to the same period in the prior year.

Increase in RBR in the quarter was driven by broad-based demand across all of our offerings in this segment and led by strong growth in our performance improvement, financial advisory, and revenue cycle managed services offerings.

Operating income margin for Healthcare was 30.9% in Q3 2025 compared to 27.1% in Q3 2024. The increase in margin was primarily due to revenue growth that outpaced an increase in salaries and related expenses for our revenue-generating professionals and a decrease in salaries and related expenses for our support personnel. We now expect full year operating income margin for the Healthcare segment to be in the 29% to 31% range.

The Education segment generated 30% of total company RBR during the third quarter of 2025. The Education segment posted record RBR of $129.4 million, up $8.4 million or 6.9% from the third quarter of 2024. The increase in RBR in the quarter was driven by strong demand for our strategy and operations, research and digital offerings.

The inorganic RBR contribution from our acquisitions was $2.2 million in the third quarter of 2025. The operating income margin for Education was 25.7% for Q3 2025 compared to 24.1% for the same quarter in 2024. The increase in margin was primarily due to revenue growth that outpaced an increase in compensation costs for our revenue-generating professionals.

The Commercial segment generated 19% of total company RBR during the third quarter of 2025, posted record RBR of $83.4 million up $17.5 million or 26.6% from the third quarter of 2024. The increase in RBR was driven by $19.6 million of incremental from our acquisitions of AXIA, Treliant to Wilson Perumal.

Operating income margin for the Commercial segment was 16.4% for Q3 2025, compared to 24.5% for the same quarter in 2024.

Decline in margin in the quarter was primarily driven by increases in salaries and related expenses for our revenue-generating professionals, contractor expenses as percentages of RBR. The decline in margin is reflective of an increased mix shift toward our digital offerings during the quarter as well as the transition period for certain acquisitions that we expect to become accretive in 2026. We expect our operating margins in this segment to be in a range of approximately 16% to 18% for full year 2025, reflecting these factors.

As Mark mentioned, for both our strategy and financial advisory offerings, we've seen an inflection point and saw improved sales conversion over the course of the third quarter and into October.

Corporate expenses not allocated at the segment level and excluding corporate restructuring charges, were $56.5 million in Q3 2025 compared to $46.8 million in Q3 2024. Unallocated corporate expenses in the third quarter of 2025 included $2.7 million of expense related to the increase in the liability of our deferred compensation plan, compared to $2.3 million of expense in the third quarter of 2024. These amounts are offset by the change in market value of the investment assets used to fund that plan, which is reflected in other income.

Excluding the impact of the deferred compensation plan and restructuring expense in both periods, unallocated corporate expenses increased $9.3 million in the third quarter of 2025, primarily driven by increases in salaries and related expenses for our support personnel, software and data hosting expenses, and legal and third-party professional expenses related to our programmatic acquisition activity during the quarter.

Now turning to the balance sheet and cash flows. Cash flow from operations in the third quarter of 2025 was $93.8 million. During the quarter, we used $8.5 million to invest in capital expenditures, inclusive of internally developed software costs, resulting in free cash flow of $85.3 million. We expect full year free cash flow to be in the range of $165 million to $185 million, net of cash taxes and interest and excluding non-cash stock compensation.

DSO came in at 76 days in the third quarter of 2025 compared to 78 days for the second quarter of 2025, compared to 86 days for the third quarter of 2024. The decrease in DSO reflects the impact of collections on certain larger health care and education projects in alignment with the contractual payment schedules.

Total debt as of September 30, 2025, was $611 million, consisting entirely of our senior bank debt. We finished the quarter with cash of $23.9 million from net debt of $587.1 million. This was a $9.7 million decrease in net debt compared to Q2 2025, which incorporates the share repurchases and acquisition payments made during the quarter.

Our leverage ratio as defined in our senior bank agreement, was 2.3 times adjusted EBITDA as of September 30, 2025, compared to 1.9 times adjusted EBITDA as of September 30, 2024. We continue to expect our year-end leverage ratio to be approximately 2.0 times full year adjusted EBITDA.

In the third quarter, we used $18.6 million to repurchase approximately 147,000 shares, bringing our total year-to-date share repurchases to $152.5 million approximately 1,085,000 shares, representing 6.1% of our common stock outstanding as of December 31, 2024. As of September 30, 2025, $112.6 million remained available for share repurchases under the current share repurchase authorization from our Board of Directors.

Finally, let me turn to our guidance for the full year 2025. As Mark mentioned, today, we are updating our annual guidance by narrowing our RBR guidance to a range of $1.65 billion to $1.67 billion, affirming our adjusted EBITDA guidance range of 14% to 14.5% of RBR and increasing our adjusted non-GAAP EPS and to a range of $7.50 to $7.70.

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

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Andrew Nicholas, William Blair.

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**Andrew Nicholas** - *William Blair Capital Partners - Analyst*

I wanted to just start on performance improvement and really consulting within the Healthcare segment this quarter, really seems to have popped quarter-over-quarter. So I know you hit on a little bit in your prepared remarks, but just a little bit more color on all that's going on in that business, what's driving it, how the pipeline looks, how you're hiring there -- and maybe somewhat relatedly, if there's anything onetime in nature or unsustainable in the quarterly print. I think you mentioned larger-sized engagements, but just more insight into just how well that business did in this quarter?

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

Yeah, Andrew, this is Mark. I'll start and then John can provide some additional color commentary. The comment I made was that this is perhaps the strongest market that we've ever seen, and it is really broad as well. And what we've seen is really just a reaction to collective margin pressures. If you take a step back to the macro, what's driving that is very simply and a continuing trend reimbursements from the government and from commercial payers are not keeping pace with cost increases and challenges. And that is hard to fix on a sustainable basis without some pretty deep transformation of your business and your operations and at the same time, finding ways to continue to grow because you can't cost your way out of that.

And so that leads us to for Huron because we are so integrated in terms of how we go to market across the full scope of our offerings. We are finding that we resonate very well with clients of many sizes in many markets from AMCs to regional national systems it's giving us just a time to shine for the integration that's happened over the last several years.

And it's all founded in as I said before, demonstrable ROI. So if you don't get real results for clients, you're not going to get rehired in this market, everyone talks to one or others. So it is very important to have a very strong reputation, and that's also propelling us is that we've been able to deliver on behalf of our clients.

We have a team of people who are incredibly passionate about serving clients and care deeply about Healthcare and the culture all plays into that as well. So I think right now, it's been a time that you've seen the best of what we could ever have hoped to see out of our Healthcare team and it continues not only in just the performance improvement area, but you're seeing that in managed services as well, where that offering continues to grow and resonate within the market. So it's -- as I said before, there's a pretty significant broad-based support and demand with that.

John, do you want to add some color?

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

Yeah, Mark, I'll add Andrew some commentary just on the pipeline as well as its head count within Healthcare. So from a pipeline perspective, even after some of the sales activity that we've seen so far this year and the strengthening revenue run rate. The pipeline still sits on a record high levels at this point, which is really encouraging to us.

We had a third quarter that reflected really strong sales conversions. I'd say, as we start the fourth quarter here, that trend has definitely continued during the first month of the fourth quarter.

Digging a little deeper on that pipeline, consistent with Mark said, I think it's a mix of clients that are both going through current financial strain as well as clients that are looking at some of their recent regulatory actions, some of the pressure that may be coming as it relates to Medicaid or research funding and trying to get ahead of it before we get a year or two down the road and they feel increased pressures related to those things.

Increasingly, we're seeing -- Mark alluded to this as well. But increasingly, we're seeing scopes of projects that are larger than what we've seen in the past. And part of that reason is -- not only is it performance improvement, but there's a strategy element, there's a financial advisory element. There's a digital element. More and more, we're seeing pull-through of really the entire set of capabilities that we have in Healthcare.

And Mark mentioned our revenue cycle managed services business. That's an area that also is really standing out as a bright spot, both in terms of new sales to new clients in that area, but also the opportunity to expand at existing clients based on really good performance by our teams on those projects. So all those things together give us a lot of encouragement in the Healthcare segment.

On the head count side, you do absolutely see us leaning into this demand in terms of our head count additions. Excluding the managed services head count, saw some significant head count adds in the Healthcare segment. That's really building out the capacity that we need to have in order to not only deliver on closing out this year, but also based on our expectations that we're off to a strong start for 2026 as well.

And then you do see the continued managed services head count build. A lot of that is our India head count for that part of the business, and that's really related to some of the opportunities that we're seeing there as well.

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**Andrew Nicholas** - *William Blair Capital Partners - Analyst*

Perfect. John, maybe I'll pick up on the last comment there. Just in terms of setting up for next year. Healthcare obviously has very good momentum. You have some deals that you've closed throughout this year that should help growth as well. Any comments that you'd make on '26 broadly? I know you gave a multiyear target at your Investor Day earlier this year. Just wondering if we should expect anything meaningfully different from that framework next year or maybe puts and takes for us to consider as we think about '26?

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

Yeah, Andrew, obviously, we're still going through our planning process and considering next year. So we're not in a position to really guide to that yet, which I know isn't what you're asking, but -- generally speaking, I think I'd go back to that Investor Day and the framework that we put out there. And I'd say a factor that we've now talked about for a couple of calls is that we have seen increased demand over the past couple of quarters related to areas that we discussed. So that's certainly a favorable item and gives us confidence in that model that we put out there at Investor Day.

And if you think about the range of outcomes for next year, continued execution on those types of projects might be the type of thing that would put you towards the higher end of that range. But I think the best thing we do would be to go back to that multiyear model that we discussed in March.

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**Andrew Nicholas** - *William Blair Capital Partners - Analyst*

Great. And if I could just squeeze one more in. On commercial, you talked about seeing an inflection point in demand over the course of third quarter or at least as third quarter progressed and then into October. Anything else that you could add there? Like what is driving that improved conversion? Is there anything in the end markets where you participate that has made that what is driving that, I guess, is the question?

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

Andrew, I'll take that one. I think if you look at what we said was the strategy and financial advisory. I'll take financial advisory first. So I think it's pretty clear if you look at the broader market, you've seen competitors who have seen an uptick in their demand and the restructuring and turnaround arena. And that's trickling into our business now as well. That gives us a very strong confidence.

The sales conversion on those types of opportunities are really short between when they come into the door when we actually start executing. So that's certainly a momentum factor coming into Q4 that we were alluding to.

And then even on the strategy side, where we've seen this combination of going to market within the earliest days of the Wilson Perumal's some nice, continued momentum there that has shifted perhaps what we have seen for some softness earlier in the year. We feel like that's certainly a good trajectory as well.

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**Operator**

Tobey Sommer, Truist.

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**Tobey Sommer** - *Truist Securities Inc - Analyst*

I want to start with a broad question. How is your hiring capability in the company's infrastructure from your perspective ahead of what looks like it could be a decently long period of rapid growth?

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

Tobey, this is John. I can start. Mark can provide any color commentary. We feel really good about that. I think -- you hear us talk a lot, Tobey, about the culture that we've been able to build here at Huron.

There's two tangible things that, that does for us. It leads to lower attrition rates than you see across the industry, a lot of other places, and it also makes it a really attractive platform to attract people into. And so you've seen in that increase in head count numbers over the past couple of quarters, our ability to find the talent that we needed to add that talent. And there's nothing that really gives us pause about being able to continue to do that and really leaning into the demand that we're seeing right now.

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

Yeah. I think well said, the only thing I just maybe just put stop on that comment is strong culture for us is one of the most important things that we focus on. We start with that. It's why people join us. It's why -- if they try some other areas, they rejoin us. And for us, it is -- we think one of our most important strategic advantages in the market is just having a great place that people choose to come to work.

**Tobey Sommer** - *Truist Securities Inc - Analyst*

Perfect. In education, how would you describe customer decision-making? Do your customers feel like they're through the worst of the turbulence and volatility around policy tax, et cetera, which seemed at least based on media flow to peak in late 2Q, early 3Q?

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

And Tobey, I believe you're seeing, I would call it, in equilibrium right now. You're seeing decisions made for the long term relative to like the comments we made about the digital transformation projects. We're also seeing not a gut reaction to some of the more short-term challenges, taking a much more thoughtful way of evaluating what the options are going forward. And as a result, when you look over the course of the year relative to the disruptions that were potentially at the beginning of the year, we've really demonstrated our ability to kind of weather through this time. And we feel like the outlook is pretty stable at this point.

**Tobey Sommer** - *Truist Securities Inc - Analyst*

On Managed Services, where headcount growth is very, very high. Can you talk about how you're going to fully absorb those people, how investors should have confidence that it's attached to projects and revenue that should ramp and maybe what your outlook is for long-term utilization among those folks?

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

Yeah, Tobey, we have very high utilization. It's one of the highest areas of utilization in the firm for our managed resources, teams, there is not a lot of space between conversion of sales and the hiring of resources there. So there's a tight correlation there. It's not one of those situations where we're doing a lot of hiring in advance of anticipated demand -- the sales cycle for a lot of these types of projects tend to be a little bit longer, so that gives us the ability to -- during that period, make sure that we've got the resources that we need in the right geographies that we need to be able to serve the client and what they're particular needs are.

But so far, we've been able to manage that in a measured way despite the big number of head count add that you see.

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

Tobey, I'll add there in India. The culture is just as strong as it is in the US. And it's a wonderful team. It translates into low turnover among that team. And so when people join us, we're just getting them that stay a lot longer it takes pressure off hiring when you need to. And so -- that's one of the key reasons that culture is such an important asset for us.

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**Tobey Sommer** - *Truist Securities Inc - Analyst*

Just two other small ones like, (inaudible). In restructuring, we saw some good wins in the news, how is the team winning bigger jobs?

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

We've always had opportunities to win at larger engagements. I'd say, while our size is more of a boutique the reputation of quality that we have in delivery, particularly on restructuring assignments where we're representing at the client on the debtor side has been very, very strong. And it's pretty broad across a number of different industries.

So it's really that reputation and just getting into the market and having the relationships, not only the referral sources, whether the law firms or private equity, private debt. It's been a good, consistent source of demand for us because of the reputation we built.

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**Tobey Sommer** - *Truist Securities Inc - Analyst*

And then last one for me. With respect to Healthcare, what's the outlook for performance fees typically when demand is accelerating and very strong. There's a favorable mix that direction. What's the outlook there?

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

Tobey, that's a good question. And as you know, but just as a reminder, we're -- we work with our clients on whatever type of arrangement that they're most comfortable with. That's what's important to us. So there can be some variability around that over time. In fact, despite the growth that you see this year, from a revenue perspective, from a margin perspective in our Healthcare business, we've actually had a lower percent of contingent-based fees in 2025 than we did in 2024.

And that just reflective of clients this year that had more of a preference for fixed fee type work. With all that said, based on some of the sales activity in the back half of the year, I think we have seen more clients interested to your point, in performance-based fee arrangements. So if I were to play that forward likely in 2026, my expectation is that, that percent of revenue that's tied to performance-based fees may go back up again to the level it was at in 2024.

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**Operator**

Bill Sutherland, Benchmark.

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**Bill Sutherland** - *Benchmark Company LLC - Equity Analyst*

Mark, I think in your prepared comments, I think I caught this correctly. You said there's increasing competition in the commercial side in digital. Did I hear that right?

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

No, I don't think it was exactly that, Bill. I'd just say we have been performing well in that market. I don't think there's any real change in the competitive environment there.

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**Bill Sutherland** - *Benchmark Company LLC - Equity Analyst*

Okay. I misheard that I'm glad you clarified. In the Education Group, I know that you guys have talked in terms of the other two groups as far as the pipeline still being very active and the sales conversion is strong. Coming sort of the third quarter. Does that also apply to education? I don't remember you specifically saying that?

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

Yeah, Bill, it's John. The -- we had record sales conversions in the second quarter of this year. We didn't get a record status during the third quarter, but it was still strong sales conversions during the quarter. And we're bumped to the fourth quarter now, and we're off to a really good start from the fourth quarter perspective, too. So we continue to see strength there as well.

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**Bill Sutherland** - *Benchmark Company LLC - Equity Analyst*

And John, when you were talking about the segments and the expected margin range for the year. Did you give education or I missed it?

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

I didn't -- the reason is there was no change in it, so that it's consistent with where we're at for, which is 23% to 25% the year.

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**Bill Sutherland** - *Benchmark Company LLC - Equity Analyst*

Okay. That makes sense. And then the last one, I mean, obviously, like everybody else in the world, thinking more about the AI side of things. And curious about the percentage of your book that you're seeing that has at least somewhat of an AI focus. And with that, are you finding yourself able to build the resources internally sufficient to meet demand? Or could that be -- could that be an area where a small acquisition would be helpful?

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

Yeah, Bill, before John jumps in I'll give you more of the color. Let me just say that we view the opportunity related to AI and automation as a positive for our business. And hopefully, that came through the remarks. Because we're not a large scale [NEO] and using scale and infrastructure to lower the cost or we're not a generalist firm, we're a trusted implementation partner. So when we're working shoulder to shoulder with our clients, it creates opportunities to work with them because we understand their business processes, the industries and so we can easily work hand-in-hand with them.

So we think that we actually see this as very much a net positive for our business over time. So John, you want to maybe provide some color on -- that's finding its way into the numbers?

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

Yeah, Bill, if you think about our digital business, which is a little bit north of 40% of our total revenue, somewhere in the 15% to 20% range of that total revenue is work that's directly related to AI type projects. I would say though, as time goes on, I think that, that line gets even blurrier because there's increasingly, there's some aspect of automation or AI involved in many, many of the digital projects that we're working on and a much higher percent of the revenue.

I'd say, to extend even beyond digital. When you look at some of our performance improvement consulting, for example, I'd say at the Managed Services part of our business, which is another one that Mark alluded to, I'd say, automated solutions, use of AI or to help our clients drive the types of outcomes that they're looking for. That's becoming a bigger part of the equation.

In terms of our talent, I think we're at a really good starting place. If you think again about for us, our starting point is 40% of our revenue out of the gate is coming from consultants with the specialization and technology, specialization in digital. So the evolution here to some of the more advanced technologies easier leap for those consultants. And it's really just part of the evolution of the tools that they already have expertise deploying. So I think we're taking advantage of that high digital fluency that we have at Huron.

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**Operator**

(Operator Instructions) Kevin Steinke, Barrington Research.

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**Kevin Steinke** - *Barrington Research Associates Inc - Analyst*

Great. So you talked about the strong demand in education that you're seeing for digital transformation projects. Just wondering about the mix in terms of the type of projects there. I know in the past; you've talked about really the potential of student life cycle systems and the growth opportunity that offered there for you versus implementation of traditional ERP system. So just wondering a little bit more about any color on the types of implementations you're seeing in the mix there?

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

Yeah. Right now, Kevin, it's been really, I would call it, in core ERP financials, HCM full suite type implementations a little bit lighter on the student side. So I'd say our comments are targeted more toward core ERP.

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

And Kevin, as I was thinking about your question, another -- another good point to make, I think this is very true in some of these education ERP projects that we're seeing. In order for our clients to be able to unlock some of the benefits of automation and AI, having a solid data structure, a solid technology infrastructure is critical. You actually can't do it at any scale unless you've made some of those investments in the underlying foundation.

So I think that's part of the reason we're seeing such good demand right now for those types of offerings as clients who are not only on trying to reset the foundation because they're on dated tools now that they need to get and to the more modern platforms, but also because they know that's the stage for the next round of investments in AI-based functionality.

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**Kevin Steinke** - *Barrington Research Associates Inc - Analyst*

Right. Okay. That's helpful. I just want to ask about utilization rate on the consulting side in the quarter. Step down sequentially from the second quarter.

I'm assuming that's related to some of the ramped-up hiring you did there. And just maybe you could talk about the opportunity for utilization to improve going forward as more projects ramp up and how that can contribute to your margin expansion going forward?

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

You got it exactly right, Kevin, that lower utilization that you see during the quarter was related to that account additions that we made to really support demand. So we're in a little bit of investment mode here. I'd say in the back half of the year to build out the team to not only deliver on the opportunity we see in the back half of this year, but also -- set stage for next year as well.

So I think from a long-term perspective, we'd expect ourselves to be able to get back up to the upper 70% range overall that you've seen us hit in other quarters. But I think you may see -- you saw it this quarter, you may see for another quarter or two a little bit of pressure on that metric as we're building out the team, getting ready to continue to grow the business.

**Kevin Steinke** - *Barrington Research Associates Inc - Analyst*

Okay. Great. I think most of my other questions have been answered, so I'll turn it back over.

**Operator**

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

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

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

**Operator**

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