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HURN.OQ - Q1 2025 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 first quarter of 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 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.

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

Good afternoon, and welcome to Huron Consulting Group's first-quarter 2025 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 three operating segments, revenues before reimbursable expenses or RBR grew 11% over the first quarter of 2024, while we continue to expand our margins. Our first-quarter results reflect our continued progress in executing our growth strategy, which we refreshed and shared at our Investor Day in March. We're encouraged by our performance in the first quarter in the face of a dynamic external environment.

Today, we reaffirm our annual guidance. As we stated on our year-end earnings call and reiterated at our Investor Day last month, we believe the challenges and opportunities in the external environment are contemplated within our guidance range. Our strong client relationships, incredibly talented team, industry expertise, and breadth of capabilities, including our performance improvement offerings collectively position us well to serve our clients as they navigate an evolving and complex regulatory landscape and continued market disruption.

I'll now share some additional insights into our first-quarter performance. In the Healthcare segment, first quarter RBR grew 10% and over the prior year quarter. The increase in RBR in the first quarter of 2025 was primarily driven by continued strong demand for our performance improvement and financial advisory offerings.

Our Healthcare business continues to perform exceptionally well as our clients respond to increasing financial pressures and potential regulatory changes. Despite increased patient volumes, many of our large health system clients continue to face operating expenses that are outpacing reimbursements. We believe this is a trend that will continue for the foreseeable future.

In addition, potential changes to Medicaid funding, reductions in research funding changes to the 340B drug pricing program and increases in the cost of imported drugs and medical devices are forcing health systems to evolve their clinical and administrative functions as they manage declining margins.

Providers are positioning their businesses to stay ahead of the evolving external environment, while operating in an increasingly competitive landscape. In some cases, our clients are responding to near-term financial pressures. While others are executing strategic, operational and digital initiatives, to sustain or advance their market position while preparing for a more challenging financial environment in the future.

To execute these initiatives, providers are turning to Huron as their trusted adviser and a long track record of delivering significant tangible results. The pipeline continues to grow and demand for our Healthcare offerings remain strong, which is a testament to the investments we've made to diversify our portfolio.

Our offerings today meet the broad needs of the market, focused on both accelerating growth in our clients' markets and driving efficiency across their administrative and clinical operations. Across the full range of market conditions, we're well positioned to address the wide array of opportunities and challenges facing a hospital, physician group and health system clients.

Education segment RBR grew 10% in the first quarter of 2025 over the prior year quarter, driven by strong demand for our strategy and operations and advancement offerings and increased demand for our software product offerings. Let me share some context on our Education business. While we have successfully diversified our client base over time, large public and private research universities have been and continue to be at the core of our business. Nearly every day, the headlines hit the press of potential regulatory impacts affecting the higher education industry.

It's important to note that these recent regulatory initiatives and federal directives do not impact colleges and universities uniformly. Nearly all research universities are experiencing some impact related to the evolving regulatory environment, magnitude, timing, and strategic implications of these impacts very significantly depending on the unique attributes of institutions.

More significant and publicized policy changes have largely impacted a relatively small number of private universities, incidentally, we haven't continued to provide services. And the uncertainty that exists today, many of our clients are turning to Huron to understand potential scenarios, evaluate their options, and take pre-emptive actions to position their organizations for the best possible outcome during this period.

For example, helping clients understand the financial impacts of the federal directives, potential options and mitigation strategies or specifically, we're helping them identify opportunities to improve liquidity and redesign their long-range planning and budget models and accelerate transformation of their operating models. We're also analyzing clients' funding mechanisms and expenses to determine how best to close potential operating deficits or future funding gaps.

Similar to Healthcare, the means of a large and small, public and private clients or wide range. The breadth of our diverse portfolio and a deep understanding of the industry as well as our clients and institutions is unmatched by our competition and positions us well to be their trusted partner as they navigate the current disruption.

Now let me turn to the Commercial segment. In the first quarter of 2025, Commercial segment RBR grew 17% over the prior year quarter and grew 11% sequentially compared to the fourth quarter of 2024. The year-over-year increase in RBR was driven by the incremental RBR from our acquisition of AXIA and strong demand for our digital offerings, partially offset by decreases in RBR from our strategy and innovation and financial advisory offering. Excluding the incremental RBR from our acquisition of AXIA, a commercial digital capability grew 12% over the prior year quarter.

Our Commercial clients are also facing increased pressure from the dynamic external environment, stemming from the uncertainty related to tariffs and a more volatile macroeconomic environment. Similar to Healthcare and Education, Commercial clients are also turning to Huron as their partner of choice to navigate the market disruptions.

For example, leveraging our supply chain offerings, we're building analytic models to simulate the impact of global tariffs on their financial position over time and ripple effects that may arise. Despite this volatile environment, clients continue to advance their digital transformation imperatives, which have turned and advanced their competitive positions, drive operational efficiency, and leverage data to make better, faster decisions.

As I mentioned at our Investor Day in March, we believe we have a strong foundation to continue to grow this segment, building on the scale we've achieved to date and our digital capability while selectively adding advisory capabilities both organically and through programmatic M&A.

And now let me turn to our outlook for the year. Today, we reaffirm our guidance for 2025, and that includes RBR, adjusted EBITDA margin and adjusted diluted earnings per share. Let me close by saying that we're confident in our refresh strategy and in our ability to deliver upon the financial goals outlined at our Investor Day last month.

We're encouraged by our performance in the first quarter as the pace a dynamic external environment. For markets that we serve continue to be under increased pressure and we believe we're well positioned to help clients navigate through their complex challenges, if industry expertise to branches our portfolio, our strong competitive positions and our highly talented team.

And now let me turn it over to John for a more detailed discussion on a couple of financial goals. John?

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'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.

Before discussing our financial results for the quarter, I would like to discuss several housekeeping items. First, our first-quarter results exclude the operating results from the Studer Education business, which was divested on December 31, 2024. Second, our first-quarter results do reflect a full quarter of operating results from the acquisition of AXIA Consulting, primarily in the Commercial segment, which closed effective December 1, 2024.

And finally, our acquisitions of Advancement Resources and Halpin posed on March 1 and 17, respectively, and as such, a partial period of their operating results are included within the Education segment. The operating results of Advancement Resources and Halpin are not material to our first-quarter results.

Now I will share some of the key financial results for the first quarter. RBR for the first quarter of 2025 was \$395.7 million, up 11.2% from \$356 million in the same quarter of 2024. The increase in RBR for the quarter was driven by strong growth across all three operating segments. Net income for the first quarter of 2025 increased 36.3% to \$24.5 million. the \$1.33 per diluted share compared to net income of \$18 million or \$0.95 per diluted share in the first quarter of 2024.

As a result, as a percentage of total revenues, net income increased to 6.1% in the first quarter of 2025 compared to 5% in the first quarter of 2024. The increase in net income was driven by revenues that outpaced expenses and an increase in the discrete tax benefit for share-based compensation awards that vested during the quarter. As a result of this discrete tax benefit, our effective income tax rate in the first quarter of 2025 was negative 14.4% as we recognized an income tax benefit on our pretax income.

Adjusted EBITDA was \$41.5 million in Q1 2025 or 10.5% of RBR compared to \$33.8 million or 9.5% of RBR in the first quarter of 2024. The increase in adjusted EBITDA for the quarter was primarily due to increases in segment operating income in our Healthcare and Education segment, excluding the impact of segment depreciation and amortization and segment restructuring charges, partially offset by a decrease in segment operating income in Commercial segment and increased unallocated corporate expenses to support the growth of our business.

Adjusted net income was \$31.1 million, or \$1.68 per diluted share in Q1 2025 or \$23.3 million or \$1.23 per diluted share in the first quarter of 2024 and resulting in a 36.6% increase in adjusted diluted earnings per share over Q1 2024.

Now I'll discuss the performance of each of our operating segments. Healthcare segment generated 50% of total company RBR during the first quarter of 2025. The segment posted RBR of \$198.5 million, up \$17.7 million or 9.8% from the first quarter of 2024. The first quarter of 2024 included \$3.4 million of RBR from the Studer Education business, which was divested in the fourth quarter of 2024. Excluding the results for Studer Education, Healthcare segment Q1 revenues grew 12% over the first quarter of 2024. The increase in the segment's RBR in the quarter reflects continued strong demand for our performance improvement and financial advisory offerings.

Operating income margin for Healthcare was 28.4% in Q1 2025 and compared to 23.6% in Q1 2024. The increase in margin was primarily due to revenue growth that outpaced the increase in salaries and related expenses for our revenue-generating professionals decreases in contractor expenses, practice administration, and meeting expenses, salaries and related expenses for our support personnel. The Education segment generated 31% and total company RBR during the first quarter of 2025. The Education segment posted RBR \$122.7 million, up \$11.2 million from the first quarter of 2024.

The increase in RBR in the quarter was driven by strong demand for our strategy and operations and advancement offerings, increased demand for our software product offerings within our digital capability. The inorganic RBR contributions from our acquisitions, including GG&A which closed on March 1, 2024, as well as AXIA Advancement Resources and Halpin of \$3.9 million in the first quarter of 2025.

The operating income margin for Education was 18.8% for Q1 2025, compared to 19.7% for the same quarter in 2024. The decrease in operating income margin in the quarter was primarily driven by expenses related to a team-wide leadership meeting during the quarter, performance bonus expenses for our revenue-generating professionals, salaries and related expenses for our support personnel, and amortization of our internally developed software, all as percentages of RBR, partially offset by revenue growth that outpaced the increase in salaries and related expenses for our revenue-generating professionals.

Commercial segment generated 19% of total company RBR during the first quarter of 2025 and posted RBR of \$74.5 million, up \$10.8 million, 17% from the first quarter of 2024. The increase in RBR was driven by \$11.2 million of incremental RBR from our acquisition of AXIA, which we closed in December of 2024. The strong demand for our digital offerings, partially offset by decreases in RBR from our strategy and innovation and financial advisory offerings.

Operating income margin for the Commercial segment was 15.2% for Q1 2025 compared to 22.1% for the same quarter of 2024. The decrease in operating income margin reflects the mix of RBR during the quarter and was driven by increases in compensation costs for our revenue-generating professionals and support personnel and contractor expenses as percentages of RBR. We continue to expect full-year operating income margin in the range of 21% to 23% for the Commercial segment.

Corporate expense is not allocated at the segment level, excluding corporate restructuring charges, were \$52.4 million in Q1 2025 compared to \$50.9 million in Q1 2024. Unallocated corporate expenses in the first quarter of 2025 included \$900,000 of income related to the decrease in the liability of our deferred compensation plan, compared to expense of \$2.4 million in the first quarter of 2024.

These amounts are offset by the change in market value of the investment assets used to fund the plan reflected in other income. Excluding the impact of the deferred compensation plan in both periods, unallocated corporate expenses increased \$4.8 million in the first quarter of 2025, primarily driven by increases in compensation costs, for our support personnel, software and data hosting expenses, partially offset by a decrease in legal expenses.

Now turning to the balance sheet and cash flows. Cash flow used in operations in the first quarter of 2025 was \$106.8 million, reflecting our annual incentive payments during the quarter. Cash flow used in operations during the first quarter of 2024 was \$130.7 million. During the quarter, we used \$8.5 million to invest in capital expenditures inclusive of internally developed software costs, resulting in negative free cash flow of \$115.4 million. Continue to reflect full-year free cash flow to be in a range of positive \$160 million to \$190 million net of cash taxes and interest and excluding the noncash stock compensation.

DSO came in at 79 days for the first quarter of 2025 and compared to 91 days for the first quarter of 2024. The decrease in DSO reflects the impact of collections on certain larger Healthcare and Education projects in alignment with their contractual payment schedules.

Total debt as of March 31, 2025, was \$576.3 million, consisting entirely of our senior bank debt. We finished the quarter with cash of \$23.4 million for net debt of \$552.9 million. This was a \$217.1 million increase in net debt compared to Q4 2024, primarily due to the payment of our annual cash bonuses and share repurchases during the quarter.

In the quarter, we used \$72.9 million repurchased approximately 509,000 shares, representing 2.9% of our common stock outstanding as of December 31, 2024. As of March 31, 2025, a \$191.7 million remained available for share repurchases under the current share repurchase authorization from our Board of Directors.

Our leverage ratio as defined in our senior bank agreement, was 2.2x adjusted EBITDA as of March 31, 2025, compared to 2.7x adjusted EBITDA as of March 31, 2024. As a reminder, our first quarter typically represents a seasonal high leverage ratio given the payout of our annual bonuses in market.

Finally, let me turn to our guidance for full-year 2025. Mark mentioned, today, we reaffirm our annual RBR, margin, and adjusted EPS guidance, which includes RBR in the range of \$1.58 billion to \$1.66 billion. adjusted EBITDA in a range of 14% to 14.5% for RBR and adjusted non-GAAP EPS in a range of \$6.80 to \$7.60.

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

QUESTIONS AND ANSWERS

Operator

[Operator Instructions]

Andrew Nicholas, William Blair & Company.

Andrew Nicholas - William Blair & Company - Analyst

Thanks, and good afternoon. I wanted to ask first about the Commercial segment outlook. Obviously, it feels like quite a bit has happened since the March Investor Day. Could you speak a little bit more specifically to the pipeline for that business, whether or not you're seeing any kind of pockets of indecision or pullback on discretionary projects? And maybe relatedly, if you have any changes to the segment out level growth expectations for that business?

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

Yes, Andrew, it's John. I'll start. No changes to our guidance at the segment level. Actually, if you look at the first quarter, we had record levels of sales conversion during the first quarter in our Commercial segment, and that was primarily driven by the digital business. So if you look at the results for the first quarter, you've got the inorganic contribution from AXIA that we talked about. Our Commercial digital business, as Mark referenced, was up 12% during the quarter, which I think corresponds to that pipeline and backlog strength.

On the consulting side, that's where we did see negative growth during the quarter. I put that into a couple of buckets. I think on the strategy part, I think that is an area where you do see some impact from the current macro environment, and there is just a lot of disruption there. And I'd say strategy within Commercial is an area that we've got a little bit of caution on as we continue to look at as the year goes on.

I think in terms of the financial advisory part of the business, it's really a case that, that team was very busy during the quarter, but it happened to be that a lot of the work came in the Healthcare segment for some of our clients that are going through distress within Healthcare.

As we turn the corner into April, a lot of the inquiries that we're seeing now are more weighted back towards the Commercial segment. So I think that we'll see increased demand there from a financial advisory in the Commercial segment during the second quarter, a little bit of a watch item on the strategic part of the business, which even there for that team,

I know they were also very busy in the Healthcare part of the business during the quarter. It was just on the Commercial side, that was a little bit softer. And then we feel really good about the way things are shaping up from a digital perspective.

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

Andrew, the only additional comment I'll make is just that I think with the balance between Pro and countercyclical offerings in that segment, it gives us a higher degree of confidence that the outlook for the year is intact, and we'll be in fine shape. We certainly have a lot of quarters ahead of us to get through, but we feel good about the year.

Andrew Nicholas - *William Blair & Company - Analyst*

Great. That's helpful and encouraging. I guess for my follow-up, I just wanted to ask specifically on head count growth. I think sequentially, it was relatively flat if I take out some of the inorganic adds. And I'm looking just at the revenue-generating professionals, not the managed services employees.

So can you just maybe speak to that and how you're thinking about head count growth in this current market environment? Where are you prioritizing new head count growth? And is the expectation for that to resemble head count -- or excuse me, revenue growth still?

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

Yes, Andrew, it's John. I can start. When we look out at the full year, we still expect head count growth to largely -- and again, similar to you, I'm answering excluding managed services headcount. But excluding that population, we expect head count to largely flux with revenue as the year goes on. I think what you saw in the first quarter was just some really good execution by our teams in terms of utilization.

You probably noticed that utilization for both our consulting capabilities as well as our digital capability was up roughly 400 basis points in each of those areas in the first quarter of this year versus last year. So I think the team did a really good job of using the talent that we have to execute on the revenue that we had during the first quarter. But as we continue to grow throughout the year, we're certainly going to need to be hiring and adding more talent.

I'd say in particular, within our Healthcare business, that's an area where we just continue to see strong demand from a pipeline perspective, strong sales conversion, and that's an area where I think you'll see it continue to add head count to support the growth we're expecting as the year goes on.

Andrew Nicholas - *William Blair & Company - Analyst*

Very helpful. Thanks again.

Operator

Tobey Sommer, Truist Securities.

Tobey Sommer - *Truist Securities - Analyst*

Thank you. Good afternoon. How would you characterize the new business in billings, in Education and Healthcare broadly during April. Any kind of change versus the first-quarter trend?

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

No, nothing notable that I would point to generally. In fact, if you look at our -- I know you're asking about even as we progressed into the second quarter here. But if you look at our first-quarter sales conversion, it was up meaningfully from where it was a year ago. So that was a good indicator. A lot of that pipeline conversion came through in February and March and there was significant growth in terms of conversions during those couple of months as well.

So in no change that I'd point to in April. It's just -- we're not even all the way through that month yes -- getting we're not quite there.

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

Maybe only the one thing I'd add is we -- I was going to say and on the flip side, we haven't seen cancellations, the things that we've already sold, so they continue to progress. So I think it's pretty much a fairly normal environment for us from what we would typically see [abs] and all the disruptions going on.

Tobey Sommer - *Truist Securities - Analyst*

Great. And that kind of goes to where back follow-up was going to be in terms of zooming in a bit. So in that select group of private universities that are most impacted by policy changes. Anything you've seen in your in your business there with them in projects. And I understand you may have pre-emptively answered part of that already?

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

No. Really, we continue to work with them, many of these go back from the founding of the company in terms of just the length of time of the relationships. And so we've been a trusted adviser for them in various situations that have come along. The nature of the work might shift a little bit. But again, it really has not had to, from our perspective and kind of dramatic effect as a result of the headlines that have been out there.

Tobey Sommer - *Truist Securities - Analyst*

Thank you. How has assessment activity trended in for performance improvement projects? And is there any shift that you could share with us in terms of customers' propensity to include performance fees?

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

I would say, Tobey, it continues to be a robust environment in terms of assessment activity. I think that's characterized by some of the trend lines that we saw coming into the year where many of our clients are going through financial strain related to constrained revenue at the same time, the costs have continued to escalate. So I think that's still been a theme.

And then I think some of the recent regulatory changes or the evolving department, there has cost some clients to continue to be concerned about revenue constraints and funding sources, which then is oftentimes something that causes clients to look at performance improvement-type projects

as a way to address potential budgetary gaps in that sort of environment. So the pipeline and the assessments we see it continue to be busy in that area. In terms of contingent-based fees versus [royalty], I would say no. I don't think we've seen any real shift in terms of mix in that regard.

Tobey Sommer - *Truist Securities - Analyst*

Okay. And then I just wanted to ask one more question on project size in duration. If you zoom out here and you think about what you're seeing in the business, what you have in your backlog already. Do you think the size and duration of your projects is changing at all? And if so, in which direction?

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

Over time, Tobey, when I say that through last year into the early part of this year, I think we are seeing the average job size increase. I think that's reflective of some of the challenges that our clients have been facing. And I think that's really across industries, too, in terms of just scope and complexity.

The other big thing there, too, is with the change in our operating model, the number of projects where we're bringing in different capabilities, whether that's bringing in our digital capability or strategy capability or financial advisory capability, I think that adds to project size as well. So that's been a trend that's been increasing for us.

Tobey Sommer - *Truist Securities - Analyst*

Thanks very much. I'll get back in the queue.

Operator

(Operator Instructions) 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*

Thank you very much for spending time with us this afternoon. We look forward to speaking with you again in July when we announce our second quarter results. Have a good evening.

Operator

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

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