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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Huron Consulting Group's webcast to discuss financial results for the second quarter 2021. (Operator Instructions) As a reminder, this conference call is being recorded.

Before we begin, I would like to point out to 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 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 Jim Roth, Chief Executive Officer of Huron Consulting Group. Mr. Roth, please go ahead.

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

Good afternoon, and welcome to Huron Consulting Group's Second Quarter 2021 Earnings Call. With me today are John Kelly, our Chief Financial Officer; and Mark Hussey, our President and Chief Operating Officer. I'd like to spend a few minutes putting our second quarter results into context as it will provide important insight into how we see things evolving for the rest of the year.

Prior to the start of the pandemic, we finished 2019 with strong performance across all 3 operating segments, and we entered 2020 with much of that momentum continuing. At the midpoint of our initial guidance range for 2020, we anticipated a growth rate of 5%, and we believed at the time that the market demand for our services and our investments in growth would enable us to exceed that target.

As we have discussed on prior calls, with the onset of the pandemic in early 2020, the Healthcare segment was negatively impacted immediately and the Education segment was negatively impacted a quarter later, while the Business Advisory segment achieved strong growth through most of 2020 despite global economic challenges.

Turning to 2021. When we released our first quarter results, we shared our belief that the Education and Healthcare segments reached their pandemic revenue low watermarks during the fourth quarter of 2020 and first quarter of 2021, respectively. We also shared that we saw an increase in our sales pipeline and the pace of signings in our Healthcare and Education business, which gave us further confidence in our ability to meet our updated full year performance expectations.

With that context, in the second quarter of 2021, revenues grew 6% year-over-year and 13% sequentially, reflecting the strength of the recovery in our Healthcare and Education segments. We anticipate the tailwinds that we experienced in the second quarter will continue across all segments, including in Business Advisory, further demonstrating that our prepandemic growth trajectory has returned and that we believe we have established a foundation for strong growth through the remainder of 2021.

I will now share additional insight into our second quarter performance and then provide some color on our expectations for the remainder of 2021. During the second quarter, Healthcare segment revenues grew 19% over the prior year quarter, reflective of the strength of the recovery for our offerings in the health care industry and strong performance in our revenue cycle managed services business. As we anticipated, utilization improved over the first quarter of 2021 and the pipeline of assessments for our performance improvement offerings continues to build given the financial pressures facing hospitals and health systems. As previously discussed, during the second quarter, we continued to invest in our revenue cycle managed services offerings as we believe this business will be an ongoing source of growth for Huron.

In addition, we recently onboarded the leadership of a West Coast academic health system, which is now our third revenue cycle managed services contract. As hospitals and health systems navigate challenging financial terrain, our comprehensive offering spanning consulting, managed services and outsourcing and our proven ability to achieve cost savings and yield improvement for our clients will continue to be attractive to the health care market.

Turning to the Business Advisory segment. In the second quarter of 2021, Business Advisory segment revenues were flat compared to the prior year quarter, driven by another quarter of double-digit growth across our digital technology and analytics and strategy offerings. That growth was offset by lower revenues in our distressed Advisory and Life Sciences businesses, reflective of the difficult comparisons in the second quarter of 2020. The primary growth driver in this segment is the ongoing demand for digital transformation, stemming from the altered postpandemic environment that has emerged across industries. Our digital and analytics offerings have been deployed in numerous commercial sectors, and they have also strengthened Huron's competitive advantage in our core industry verticals.

As we've been indicating during the past 2 years, the investments we have made and continue to make throughout the Business Advisory segment are providing 2 key benefits to Huron. First, the investments are enhancing our ability to provide a broader array of technology, financial and operational capabilities in new industries and geographies. Second, these investments are also yielding success in achieving new collaborative work within our Healthcare and Education segments. Collectively, we are excited about how these investments will continue to enable us to achieve our financial objectives.

Turning now to the Education segment. In the second quarter of 2021, Education segment revenues declined 7% over the prior year quarter, reflective of the difficult comparisons in the second quarter of 2020, which as of that time, had not been impacted by the pandemic. Sequentially, Education segment revenues grew 14% over the first quarter of 2021 driven by record demand in our research, strategy and operations and student offerings.

As we've indicated, there was strong demand for our technology-related services in 2019 and early 2020 and many large universities halted or deferred their systems implementation efforts until they have more clarity as to how long it would take to return to a more normal environment. We believe that time is now. And in recent months, we have seen an increase in our pipeline for technology-related opportunities. We anticipate that the second half of the year will show continuous improvement in revenue coming from cloud implementations adding to the strength in demand for the remainder of our Education offerings.

Before I turn to our outlook for the remainder of the year, I would like to make a few comments about our team. Last year, we had to make strategic decisions about our people and the duration of the pandemic. We didn't know how long the pandemic would last nor did we have a full understanding of how deeply it would eventually impact our Health and Education businesses. What we did know is that we had and continue to have an incredibly talented team of people that would not be easily replaceable if we made a material reduction in our headcount. During the pandemic, we believe that retaining our people was in the best interest of our shareholders and critical to sustaining our culture and supporting the growth we anticipated as our clients' businesses began to stabilize. We believe that those decisions are reflected in the strong revenue growth this quarter and will yield positive results our shareholders in terms of improved margins and a robust workforce that is ready to meet the anticipated high demand for our services as the economy continues to rebuild. We believe that evidence of those improvements in revenue growth and profitability will continue to materialize in more normalized levels of utilization during the second half of this year and into subsequent years as demand returns across all segments.

Finally, let me turn to our outlook for the year. As our press release indicates, we are increasing and narrowing our annual revenue guidance to $875 million to $905 million. We are also narrowing our adjusted EBITDA guidance to a range of 10.8% to 11.3% of revenues and narrowing our adjusted diluted earnings per share to a range of $2.40 to $2.70. We raised our revenue guidance to reflect the anticipated recovery in demand for our Healthcare and Education offerings in the second half of the year as well as continued growth in the Business Advisory segment. Across all 3 segments, we believe the market recovery presents strong tailwinds for demand for our business. Through the hard work and dedication of our teams, we believe we are well positioned to take advantage of these market opportunities with our deep client relationships, industry expertise and extensive technology capabilities. I remain enthusiastic about our prospects for 2021, and we are committed to returning Huron's sustainable organic growth and increased profitability.

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

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

Thank you, Jim, and good afternoon, everyone.

Before I begin, please note that I will be discussing non-GAAP financial measures such as EBITDA, adjusted EBITDA, adjusted net income, adjusted EPS and free cash flow. Our press release, 10-Q, Investor Relations page on the Huron website have reconciliations of these non-GAAP measures to the most comparable GAAP measures, along with the discussion of why management uses these non-GAAP measures and why management believes they provide useful information to investors regarding our financial condition and operating results. Also, unless otherwise stated, my comments today are all on a continuing operations basis. Now let me walk you through some of the key financial results for the quarter.

Revenues for the second quarter of 2021 were $230.1 million, up 5.6% from $217.9 million in the same quarter of 2020. The decrease in -- the increase in revenues in the quarter was driven by growth in our Healthcare and Business Advisory segments, partially offset by a year-over-year decline in revenues in the Education segment, which was not significantly impacted by the pandemic until the second half of 2020. Education segment revenues grew sequentially 14.3% compared to the first quarter of 2021.

Net income was $12.8 million or $0.59 per diluted share in the second quarter of 2021 compared to $13.6 million or $0.61 per diluted share in the same quarter in the prior year. Our effective income tax rate in the second quarter of 2021 was 21.3% compared to 20.1% 1 year ago. Our effective tax rate for Q2 of 2021 was more favorable than the statutory rate, inclusive of state income taxes, primarily due to a discrete tax benefit related to electing the GILTI high-tax exclusion retroactively to an earlier period. This favorable tax benefit was partially offset by certain nondeductible expenses.

Adjusted EBITDA was $25.6 million in Q2 2021 or 11.1% of revenues compared to $27.5 million in Q2 2020 or 12.6% of revenues. Adjusted non-GAAP net income was $15.1 million or $0.69 per diluted share in the second quarter of 2021 compared to $14.9 million or $0.68 per diluted share in the same period of 2020.

Now I'll make a few comments about the performance of each of our operating segments. The Healthcare segment generated 44% of total company revenues during the second quarter of 2021. This segment posted revenues of $101.4 million for the second quarter of 2021, up $16 million or 18.7% from the second quarter of 2020. The increase in revenue primarily reflects increased demand for both our performance improvement and revenue cycle managed services offerings. Operating income margin for Healthcare was 27.3% for Q2 of 2021 compared to 24.8% for the same quarter in 2020. The increase in margin over the prior year quarter was primarily attributable to higher utilization as well as decreases in salaries and related expense for our support personnel and contractor expense, partially offset by increases in performance balance expense and signing, retention and other bonus expense for our revenue-generating professionals as a percentage of revenues.

Let me interject one housekeeping item. As our revenue cycle managed services business continues to grow and scale, we have provided metrics in our 10-Q to provide additional color into this portion of our business. We will also file a supplemental 8-K, which provides a historical recasting of our metrics to reflect this revised presentation.

The Business Advisory segment generated 31% of total company revenues during the second quarter of 2021. The segment posted revenues of $70.9 million in Q2 2021, up $0.4 million or 0.6% from the second quarter of 2020. Revenues for the second quarter of 2021 included $4.3 million from our acquisitions of ForceIQ and Unico solution. The quarter-over-quarter increase in revenue was driven by our digital technology and analytics and strategy offerings partially offset by decreases in our distressed offerings and Life Sciences business. The operating income margin for the Business Advisory segment was 20.2% for Q2 2021 compared to 23.7% for the same quarter in 2020. The quarter-over-quarter decline in margin was primarily due to increases in salaries and related expenses for our revenue-generating professionals and contractor expense as a percentage of revenues, partially offset by a decrease in performance bonus expense.

The Education segment generated 25% of total company revenues during the second quarter of 2021. Segment posted revenues of $57.9 million in Q2 2021, down of $4.2 million or 6.7% from the second quarter of 2020. The decline in revenue reflects a difficult prior year comparison as our Education segment did not experience significant revenue impact from the pandemic until the third quarter of last year. The decrease reflects a decline in our technology implementation revenues, partially offset by increases in our research, strategy and operations and student offerings. The operating income margin for Education was 23.8% for Q2 2021 compared to 26% for the same quarter in 2020. The quarter-over-quarter decline in margin was primarily due to increases in performance bonus expense and signing retention and other bonus expense for our revenue-generating professionals and technology expenses, partially offset by decreases in contractor promotion and marketing expenses as a percentage of revenues.

Other corporate expenses not allocated at the segment level were $34.3 million in Q2 2021 compared with $31.6 million in Q2 2020. Unallocated corporate expenses in the second quarter of 2021 include $2.1 million of expense related to the increased liability of our deferred compensation plan, which is fully offset in other income by the corresponding gain in assets used to fund that plan. Unallocated corporate expenses in the second quarter of 2020 included $3.9 million of similar expense related to our deferred compensation plan. Excluding the impact of the deferred compensation plan in both periods, the $4.4 million increase in unallocated expense primarily relates to increases in salaries, bonuses and related expense for our support personnel, legal expenses, restructuring expense, travel expenses and software and data hosting expenses. For the first 6 months of 2021, other corporate expenses not allocated at the segment level to -- modestly decreased compared to the same period in 2020 when excluding the impact of the deferred compensation plan and restructuring charges.

Now turning to the balance sheet and cash flows. DSO came in at 73 days for the second quarter of 2021 compared to 64 days for the first quarter of 2021 and 68 days for the second quarter of 2020. The increase in DSO during the quarter is related to the ramp-up in revenue as the quarter progressed as well as certain larger Healthcare and Education projects with contractual payment schedules, where we anticipate to bill and collect on first half revenues in the second half of the year. We continue to expect DSO to normalize to around 60 days over the course of 2021.

Total debt includes the $265 million in senior bank debt and a $3 million promissory note for total debt of $268 million. We finished the quarter with cash of $13 million for net debt of $255 million. Our leverage ratio, as defined in our senior bank agreement, was approximately 2.8x adjusted EBITDA as of June 30, 2021, compared to 2.6x adjusted EBITDA at the end of Q2 2020. We expect to finish the year with a leverage ratio below 2x EBITDA.

Cash flow generated from operations in the second quarter of 2021 was $21 million, and we used $6 million of our cash to invest in capital expenditures, inclusive of internally developed software costs, resulting in free cash flow of $15 million. We used $23.8 million of our cash to repurchase shares of our common stock during the quarter, bringing the year-to-date total up to $35.2 million.

Finally, let me turn now to our expectations and guidance for 2021. As Jim noted, we are raising and narrowing our full year 2021 revenue guidance to $875 million to $905 million. The increase in our revenue guidance primarily reflects the ongoing recovery in our Healthcare and Education segments and continued growth in our Business Advisory segment. In addition, we are narrowing our full year adjusted EBITDA guidance to be in a range of 10.8% to 11.3% of revenues, and we are narrowing our full year adjusted non-GAAP diluted earnings per share guidance to be in the range of $2.40 to $2.70. Finally, we expect our full year effective tax rate to be in the low 20% range.

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

Operator?

QUESTIONS AND ANSWERS

Operator

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

Jasper James Bibb - *Truist Securities, Inc., Research Division - Associate*

It's Jasper Bibb on for Tobey. I wanted to ask about what's still in the pipeline for Healthcare performance improvement. As we move into 3Q, Healthcare utilization is kind of rebounding towards pre-COVID levels. Do you think you'll have visibility pretty soon on some of these larger projects you've been pursuing for a few quarters?

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

Josh, this is Jim. I think the portfolio of opportunities that we have from this is really -- I think it's pretty consistent. I think we've kind of gotten away from these really large projects that are having a big impact. And I think just having -- I think the normal performance improvement opportunities we have right now are reasonably consistent. They're largely, with what we've seen in the last year or so, absent the kind of shortfall that we had during the pandemic.

But the reality is -- I mean, some are -- we have some large health systems that are going to tend to be larger projects depending upon how much cost reduction or revenue cycle work needs to be done. But I think our expectation is that things have really kind of now gotten back to the kind of pace that we had before and that the issues that we're seeing within the health care industry are going to be very conducive to having additional growth for us in this practice. We feel good about the way that the industry is evolving. From our perspective, the pressures that we've been talking about in the health care industry are very significant. The changes that have transpired because of COVID and the way that they have to respond to that are very significant. And we feel it's created a really good opportunity for us. So we have a healthy portfolio of opportunities ahead of us that we think are going to reflect the kind of revenues for Huron that we think will be very positive.

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

And I'll -- Jasper, I'll just add that we talked last call about how we had confidence that we had seen the low point from a health care perspective in the first quarter of 2021. And that was based on couple of those projects that we've been talking about in the pipeline did close towards the end of the first quarter and into the early part of the second quarter. And that trend line continues as the quarter progressed. We continue to have nice conversion on projects in our pipeline. As you alluded to, you can see that in our utilization rate. And I would say we're still in an environment right now, as we talked about during the first quarter, where we're doing a lot of assessment work. And so a lot of assessment work that does involve some investment in terms of margin. But from an opportunity perspective and an outlook perspective, as we think about the back half of the year into 2022, it's very encouraging for us because it gives us good visibility to some meaningful work in the pipeline.

Operator

Our next question comes from Andrew Nicholas of William Blair.

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

First question that I have is just on the revenue and earnings cadence that you expect for the rest of this year. And indirectly, if there was anything kind of onetime in the second quarter. The reason I ask is because it looks to me like at the midpoint of guidance, the second half run rate is a bit lower than what you saw in the second quarter. So if you could just help me square those 2 things up, that would be helpful.

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

Yes. I think the way I would generally look at it, Andrew, is I think the acceleration of revenue in the second quarter related to our recovery was probably a little bit ahead of pace of what we would have planned at the beginning of the year. And as we look out at the back half of the year, I wouldn't necessarily describe it as a deceleration, it's probably more just if you take kind of the quarter that we produced in the second quarter that's a pretty reasonable way of thinking about the third quarter and the fourth quarter based on what we see at this point in time.

In terms of any one-off type things, when you look at the health care billing rate, you see that's a little bit higher during the quarter, and we did have some performance improvement contracts where we hit some milestones during the quarter. So I think that the bill rate will normalize as we get towards the back half of the year a little bit from where it was in the first quarter. But I'm not -- I don't think I would describe it as we're thinking of any sort of deceleration as we get into the back half of the year.

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

Makes sense. And then changing gears a little bit. I was hoping you could kind of talk about the hiring environment, the competitiveness of recruiting across your various businesses right now. And then maybe relatedly, any thoughts on employee retention levels at Huron relative to last year or even pre-COVID levels?

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

Andrew, it's Jim. I guess I'll make a couple of comments. The -- we are doing well on hiring people. The competitive environment has certainly gotten ratcheted up in the last 6 months or so, particularly in the technology areas. And so that's the part where we're seeing a lot of competition. So I think this is not unusual for -- it's really true across, I think, all professional services and even beyond professional services. So I think there's really nothing new that we're experiencing.

From a turnover perspective, things are higher than they were last year. But I think if you normalize 2020 and 2021, they're probably, for us, pretty consistent with our historical turnover trends. So we're kind of -- we're trying not to overreact to the higher turnover right now, although we're aware -- I think we suspect that our turnover rates, even this year, are probably lower than a lot of others that we have seen or heard about. And having said that though, I mean, all this stuff, whether it's recruitment, retention is a major focus of what we're doing right now. We hear the same stories. I think that everybody else hears about lots of people wanting to move and shift jobs or have a different perspective on what they want to do for their careers. And we're taking all that very seriously. We're spending a lot of time talking to our people. We're doing the best we can to kind of manage through a period of time where a lot of people have very different perspectives. Some people can't wait to get back to the office, some others never want to come back at all. And so I think it's just -- it's probably one of the most trying times in terms of managing the overall personnel and trying to get everybody through a pandemic and still stay focused on what we need to do.

We feel part of the other problem has been that, I mean, we've been pretty busy. And so there's also the point in time now where people are feeling stress from COVID. They're feeling stress for doing a lot of work. And so all of this is really tough for us to manage. It's probably a long way though, of saying that I think we're coming out of this, we have proven to be a very attractive place for people to come to want to work. We are certainly having some turnover, but I think it's, again, less than probably the average for a lot of our peers, and we feel very good about the environment into which we are recruiting.

So our challenges on a go-forward basis, I think, will not be having enough people. It's just going to be managing what is, right now, clearly, a slightly more unstable environment for personnel than we've typically had. But I think I'm confident that over time, this is going to even out and that the culture we have here is going to remain very attractive for people not just to be recruited into but to have them stay. We've actually seen people that have left Huron and come back because they realized how good a place it is here. So we feel good about this, but make no question about it, it's a difficult environment to be working in.

Operator

Our next question comes from Bill Sutherland of The Benchmark Company.

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

Curious about the new revenue, well, the new operating detail on your, what were you calling it, the health care managed services employees. So I think it'd be helpful to just have a little history on the build-out of this group. I think there's -- maybe I'm wrong, but I think Jim mentioned a third deal. I think that's where this belongs.

And then I'm kind of also curious about, in terms of 2Q, the average number of employees jumping to 431 for 1Q and the revenue only doubling that should imply, I guess, more -- that's an average number of employees. Would there be more in 3Q, I guess, with the new opportunity? And kind of curious what that means for revenues for that group.

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

Sure, Bill. I can start. So if you think about the history of our managed services offering, we had our first contract from a managed services perspective at a large client back in the fourth quarter of 2019 is when we started that business. We announced that at the time. And so really, that kind of progressed throughout the course of 2020. And then we announced last quarter that we had done a group hire as -- in April of this quarter, we announced at a subsequent event last quarter, we're adding about 300 people to this business.

And as it relates to that particular transaction, we became aware of a group of employees with certain skills and revenue cycle operations that were becoming available. We knew that we had a bunch of different opportunities to deploy those individuals as well as continue to provide transition services to that client like all of those employees. And so at the beginning of the quarter, that's when we made the large hire of 300 employees that you see that drives the increase in headcount. In terms of revenue per headcount, it's a little bit of a different skill set for that second group of employees. So that's why you kind of see the difference in blend. I think in the call last year -- I'm sorry, last quarter, I think we described our expectation from revenue related to that group of individuals to be around $10 million, of which a decent amount of that came through during the second quarter here.

And then as Jim just alluded to you now on this call, we've, in fact, engaged with a third client in terms of managed services. And these clients are all of different sizes. But there's a common theme there where they've come to us to really help them operate the revenue cycle but to really help improve the revenue cycle. And part of what we do when we have these types of offerings is a lot of the best practices that we deploy when we have a consulting project to help raise the performance level of revenue cycles. With this managed services option, it's really an opportunity for us to partner with the client to help make those practices from a consulting project stick and to make them sustainable over time. And I think that's proven to be a really attractive model to some of our different clients.

So my expectation is that increase when you look at the metric, Bill, from Q1 and Q2, that really reflects the onboarding of the 300 new employees at the beginning of the quarter. I wouldn't necessarily expect that to be the trend, that you're going to see that jump up again at the same ones in the next quarter. In fact, as I look out towards the back half of the year, my expectation is that the revenue run rate that you see will probably be generally in line, that second quarter revenue run rate, with what we see in the back half of the year. But I think beyond that, we feel like this offering is really resonating with our clients. And our expectation is that over time, we are going to see that number go up, both in terms of heads and in terms of revenue as we onboard additional clients moving forward with this offering.

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

So the utilization of the 300, that's what I'm trying to figure out just given the step-down in the -- as I just do a simple-minded revenue per employee.

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

I would say the utilization was -- for this group of employees, so they're not billable consultants. So it's not like it's the same sort of utilization calculation that you would see for our full-time billable consultants. They're more performing certain activities on behalf of our clients. I would say though, for the -- we didn't have very much in the way of any downtime from the FTEs this quarter. Our FTEs were highly utilized this quarter on the clients that we mentioned.

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

If it's something you can say, what portion of the 300 were kept at the client?

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

At the client where they had transitioned from?

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

Yes.

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

I would say this quarter, a high portion of the revenue that they worked on for us, a high portion of the deliverables were, in fact, to that client. With that said, our expectation is that we'll be able to deploy these resources more broadly in other clients as time move forward.

We still expect there to be revenue from that client into the back half of the year. But given the skills that this team has and that they bring to our portfolio, that they bring to our team, our expectation is that we're going to be able to deploy them on further clients throughout the year. The other thing, yes, I think we might have mentioned in the last call, but it probably bears repeating, with this skill set, this is a skill that we can bring to performance improvement projects as well. And oftentimes in the past, we've had a need for some of these skills and had to subcontract in some cases to bring them in. And now having a skill set in-house, we think this could be a nice supplement and margin enhancer to some of our performance improvement projects.

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

So when you're contracting for these, what are the key terms? And I guess -- and the other thing I'll ask and then I'll get off is, have you built up some level of go-to-market focus on this opportunity?

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

Absolutely. Absolutely. Yes. It's -- we think it's a big focus area. And the reason we do is because our clients are telling us that this is an area where they really appreciate a partnership. They appreciate us being able to bring these skills to them and to be able to help them sustain top revenue cycle performance. So it's definitely an area that we've -- we are working on our go-to-market scale.

And I can't remember, what was the first part of your question, Bill?

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

Just kind of curious about the typical sort of contract -- like the -- yes, the term of it and whether it's got some performance enhancements with it.

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

I would say, Bill, that the typical contract term would be over a longer period of time, right? It's usually a more steady relationship where we expect them to be recurring revenue over a period of time, a multiyear contract where in order to really make it work. It becomes kind of a more permanent component of the operations of our client and its recurring revenue to us. That's the way we work with the first client that we announced in 2019 and with the client that Jim referenced today. With all that said, there can also be interim sort of work that this team can do that isn't necessarily under a long-term project, but to the extent that a client is going through a transition, where they're making changes in their operations and they could use these skills to bridge a gap, you could also see work like this. But I would say that the heart of the business model for this will be long-term, multiyear relationships that have a recurring revenue element to them.

Operator

Our next question comes from Kevin Steinke of Barrington Research.

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

I wanted to ask a question about the outlook for the second half, just a little bit differently. On your first quarter call, you had talked about expecting sequential revenue growth on a quarterly basis in both Healthcare and Education for the remainder of the year. I guess with the stronger than expected -- or faster than expected recovery in Healthcare and Education, is that still a possibility or something you can see potentially happening at least towards the upper end of your guidance range that is sequential growth through the rest of the year in both of those segments?

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

I'll start with Education, Kevin. And they're absolutely still the same scenario that we're expecting sequential revenue improvement throughout the year. As it relates to Healthcare, I think that's still possible that we could have sequential revenue improvement from the $1.4 million that we posted this year. And to your point, that will probably be -- and when you get towards like the upper half of the guidance range at that point. But I will say that the revenue acceleration came a little bit quicker this quarter than maybe what we had anticipated when we last talked about it. So I wouldn't -- certainly, the ramp they saw between Q1 and Q2, I wouldn't expect a ramp like that going into Q3 and Q4. I think that as we looked out towards the back half of the year, if you think about the guidance where we're at, this level that we produced in Q2 is pretty close without the level that we were expecting in the back half of the year. So I think that's probably a reasonable way of looking at it for the Healthcare part of the business.

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

Yes. And I would also add, Kevin, I mean, I referred to the kind of the tailwinds that we have -- Healthcare and Education were down pretty significantly, as you're aware, during pandemic. And I think really now with -- our sense is that in both of those industries, our clients are really well prepared to deal with whatever comes down the pike now as the pandemic evolves. I think the issue is that they're facing a very different environment than they did prepandemic. And that's why we feel so strong about the kind of demand that's going to be for our services in both those industries. It's just a very different operating environment for our clients, and they're looking to us for both strategic and operational and financial and technology issues at a pace that we feel is very good, and it will be supportive of growth for the rest of the year.

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

Yes. Great. That -- your last comment kind of plays right into what my next question was going to be, and that's -- yes, obviously, you're seeing, I guess, work coming back here that may have been delayed during the pandemic, but has the changed operating environment, due to the pandemic, maybe is it causing clients to move ahead with other types of work that they might not have prior to the pandemic? Or move forward with projects that they may have not had as much urgency prior to the pandemic? Has overall urgency to move forward with some of these initiatives increased due to the current environment?

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

I think the way I would answer that is the projects that tended to get -- and I'll talk about Health and Education kind of together because there are some similarities. The projects that tended to get deferred were the technology projects. So those are the ones that were kind of on the shelf, ready to go and the clients are kind of committed to them. And then when the pandemic hit, it just -- was just going to be too hard to pull off something that can really be very disruptive within a company -- I mean, I'm sorry, within an organization, so those got deferred. I think we're now beginning to see those really come back nicely right now.

And then the remainder of the kind of the nontechnology portion of it, the part that's more around management consulting. I think what we're seeing is that there's just -- there is so much that has happened in the last 15 or 16 months that have impacted the -- both the revenue side, the cost side, the strategic positioning, the competitive environment for our clients. And I think what we have seen, I think, in both Healthcare and Education, particularly that have been hit so hard, we're seeing just a different kind of project where we're having things that are -- in many cases, being a lot more strategic, a lot more forward-looking in terms of how we're really going to make the business case successful in what is now a very challenging environment for them. So it's just -- it's been a very interesting time, and that's why we feel good about the way things are evolving for us. It was just -- it was certainly hard on our entire team to have gone through this in the last 15 or 16 months, but we've stayed very close to our clients. Our relationships with our clients have made a big difference in having them have confidence in us that they can help us -- we can help them, rather, be successful in the future. But it's a very different strategic and operating environment for our clients, and we're glad to be helping them try to navigate through this right now.

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

Okay. Yes, that's helpful. And just lastly, I wanted to ask about just the narrowing of the adjusted EBITDA margin guidance range on the top end, the guidance obviously still implies nice year-over-year margin expansion. But can you just kind of touch on the factors behind the narrowing of the range?

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

Sure, Kevin. I think I'd probably look at it. There's probably 3 factors that caused us -- if you look at the midpoint, the midpoint was 11.25%, now it's 11.0%. As far as kind of that decrease in the midpoint, I'd probably point to 3 factors. The first one really being we have incurred some additional expenses during the first half of the year. Our view is that they're probably transitory expenses. I don't think they're going to be -- or at least their impact on margin will be transitory kind of as the business environment has really picked up. And there's obviously been a lot of competition to secure resources. There's been some extra expenses incurred with that. Just kind of getting up and running there. I think our viewpoint is that eventually those type of expenses end up making their way over to the pricing side as well. So I don't think that's a long-term factor. But I think kind of in the start-up that we've had here with things kind of relaunching this year, that's been a factor.

Second is really the mix. And so we're excited, like we talked about earlier on the call, about our managed services business and the opportunity for that to provide some really nice revenue growth and recurring revenue into the future. It does blend in a little bit lower margin. So if you look at the composition of the revenue this year, I'd say there's a little bit of a mix factor in there as well as our technology businesses, which tend to blend at a little bit lower margin. They also are expected to be strong growers for the year. So I think that's a factor.

And then the final thing I'd point to is, obviously, it's -- part of what we do is making investments, but I'd say we've continued to make those investments into the first half of this year. And some of those areas where we've invested the dollars, I think, our expectation is that we're probably going to start to see the revenue come through in the back half of the year. But nonetheless, it's probably been a net investment when you look at it from a full year perspective. So it's going to be good in terms of supporting growth into the future, but probably a little bit of a headwind from a margin perspective during the year.

Operator

Our next question comes from Josh Vogel of Sidoti & Company.

Joshua David Vogel - *Sidoti & Company, LLC - Analyst*

The first question I had is can you give thoughts or maybe quantify the conversion rate today across the 3 businesses, how it compares from prepandemic? And I also want to get a sense if you're seeing an urgency or pent-up demand that's driving client agenda today? Is it across all segments? Or what services in particular?

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

I think if you're talking about the conversion rate to success, I don't think it's that different than we've historically had. I don't think there's any notable difference in our conversion rate among clients. I don't know if we have exact statistics on that, but I don't think there's anything materially different.

The pent-up demand is -- I think, is a couple of things. I mean there was -- I kind of go back, and the reason I've started my script at the beginning, try to provide some context, I wanted to remind everybody and we remind ourselves, frankly, that when we started 2020, we were really -- the practices were really on a significant uptick. And if we -- and as we were kind of thinking about the businesses back then, we knew that the issues that were going to be driving our clients, even back prepandemic, were going to be issues around digital transformation and trying to be competitive in a much more challenging environment. And so now you fast forward and I think what's driving the pent-up demand is that all of our clients, whether it be Health and Education or any of our commercial clients, have also seen now this incredible urgency to become much more transformative in their use of technology to deliver their goods and services and communicate with their clients or their customers or their patients or their students. So that has, I think, accelerated dramatically because of what happened in COVID, the realization that they're going to continue to have to do that. So that was one part of the pent-up demand.

And the other part, I think, we're seeing is -- and again, this is true across our commercial and Health and Education segments, is that it's just a very different environment for people are postpandemic -- or so-called postpandemic for these organizations to be strategically thinking about what it's going to take for them to be successful in the future. The level of competition is different. The things that they have to focus on are different. And so if you put it all together, it's been a challenging time for a lot of our clients. And I think they're looking to us to help them through this process. I think a lot of them have also had people in their own businesses that have been kind of stressed out, given all that they've gone through. So we hear a lot of -- on a lot of occasions that the bandwidth that our clients have is at an -- in an all-time low to be able to deal with some of these issues and the magnitude of the issues that they're facing are very substantive. And you put that together, and there's a strong need for outside assistance. And I think that's where we come in.

So I think the pent-up demand is very consistent and very noticeable right now for us. And that's one of the reasons we feel good about how things are going to evolve for this company.

Joshua David Vogel - *Sidoti & Company, LLC - Analyst*

I appreciate those insights. And thinking about the increases in the sales pipeline and signings, especially in Healthcare and Education, I'm just curious, the size and scope of those engagements, how they compare even to Q4 and what you're seeing. Are these potentially large, multiyear engagements? Are they smaller? Maybe piecemeal, they want to do one thing first and then move on to another? How is it looking?

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

I think what we saw during the pandemic was, I think, a pretty significant lack of desire to have larger, longer-term projects from a lot of our clients. It was just too hard to kind of manage that with everything else that was going on at their own organizations. I think what we're seeing now is that probably the size and the duration of the projects are probably beginning to pick up again. And it will probably be at least as equal to as they were before the pandemic, and in some cases, maybe even more. We don't think we really keep track of the duration and size of projects. But my guess is that there are -- there's just a lot more -- there's a lot more stress within our client environment, and there -- I think a lot of these issues are not things that can be -- can't manage overnight. I think you combine that with the fact that we had -- during the last year, we had projects that were probably a little bit more piecemeal just so they could manage them easier. They're now realizing that they can -- they now need to take on more significant projects that will have longer durations and be of a more significant size. And that's kind of what we're seeing right now.

Joshua David Vogel - *Sidoti & Company, LLC - Analyst*

All right. Great. And just lastly, thinking about capital allocation over the back half of the year, you mentioned getting the leverage ratio. It will likely be below 2x. How active do you think you'll remain on the buyback front and outside of just internal investments, just how we think about capital allocation in general?

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

Josh, I would probably still think of it as a pretty balanced approach. So I think priority #1 will be to get leverage back down to the 2x range or below. But I think by the same token, our expectations for free cash flow in the back of the year will allow for us to both achieve that objective, but also to buy back shares. And probably, there's potential for a tuck-in strategic-type M&A activity as well. Nothing imminent there, but in terms of the potential for things like you saw in the first quarter of this year, you saw in the fourth quarter last year, I think that, that's part of our growth strategy as well. So I'd say if I were looking out over the next 6 months, I'd probably expect to pretty -- deploy a balanced deployment approach.

Operator

We have a follow-up from Tobey Sommer (sic) [Jasper Bibb] of Truist Securities.

Jasper James Bibb - *Truist Securities, Inc., Research Division - Associate*

Just a question on margins. Like how should we think about SG&A costs coming back from here? And do you think there's an opportunity to keep some margin there just based on being able to operate leaner, less real estate, et cetera?

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

I do, Jasper. I think if you go back to the beginning of the year, we kind of -- we took some -- took savings initiatives of which a healthy component of that was related to SG&A at the end of last year. But we said at the time, don't interpret that as expenses are going to go straight down because there's going to be other areas where we expect -- particularly as things ramp up in terms of recruiting and things of project volume coming back that we expect there to be incremental travel expenses and things like that once we get to the back half of the year and that, therefore, it'd probably be sort of a flat story. I think that's still going to be the case.

And in my remarks, I noted we were -- excluding kind of the items like the deferred compensation plan and restructuring. It's been flat during the first half of the year. I think there were some timing items that kind of skewed some of the expenses into the second quarter versus the first quarter, but I don't think that's a trend line. I think when you look at kind of the back half of the year, my expectation for corporate SG&A is that it will likely be somewhere in between where it was in the first quarter and where it was in the second quarter in that -- then when you couple that with the growth we're expecting in the back half of the year, obviously, the guidance calls for double-digit growth in the back half of this year versus the back half of last year, and you should definitely get some nice leverage of the SG&A in the back half of the year as well as we're expecting utilization to continue to ramp up from where it is right now. So our expectation is that you should see stronger margins in the back half of the year versus the year-to-date amounts.

Jasper James Bibb - *Truist Securities, Inc., Research Division - Associate*

I appreciate the color there. Last question for me. With respect to the research parts of the business, do you think some of the funds that the Biden Administration's looking to kind of put into science and research could kind of boost the medium-term outlook there if that money ends up flowing through?

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

Yes. I think it will boost the medium- and long-term part of our business. So we had, I think, record results recently in our research area. And that's even before any of that was kind of announced. So we feel good about what's happening. It's just a -- it's a very difficult business for our clients to manage, and we happen to have incredible depth in that area and experience in being able to do that. So we're seeing more and more opportunities where we're having to help manage -- help our clients manage the business. They're all wanting to increase their research enterprise, and we're well prepared to help them manage through that.

Operator

I'm seeing no more questions. I'd like to turn the call back over to Mr. Roth.

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

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

Operator

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