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HURN - Q4 2014 Huron Consulting Group Inc Earnings Call

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CORPORATE PARTICIPANTS

Jim Roth *Huron Consulting Group Inc. - CEO & President*

Mark Hussey *Huron Consulting Group Inc. - CFO & COO*

CONFERENCE CALL PARTICIPANTS

Tim McHugh *William Blair & Company - Analyst*

Paul Ginocchio *Deutsche Bank - Analyst*

Mike Larodin *SunTrust Robinson Humphrey - Analyst*

Jason Anderson *Stifel Nicolaus - Analyst*

Randall Reece *Avondale Partners - Analyst*

Joe Foresi *Janney Montgomery Scott - Analyst*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Huron Consulting Group's webcast to discuss financial results for the fourth-quarter and full-year 2014.

(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 the disclosures required by the SEC, including a reconciliation to the most comparable GAAP numbers.

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

Jim Roth - *Huron Consulting Group Inc. - CEO & President*

Good afternoon and welcome to Huron Consulting Group's fourth-quarter and full-year 2014 earnings call. With me today is Mark Hussey our Chief Operating Officer and Chief Financial Officer.

We had a strong finish to your with one exception. Clearly the performance of our legal segment did not meet our expectations, which we will discuss momentarily. As discussed on previous calls, we fully expected that the second half of 2014 would yield a lower growth rate than we saw in the first half of the year due to the sizable performance-based fees we received in the first two quarters of 2014.

I'm pleased to report that even with the unanticipated fourth-quarter performance in legal, our 2014 Company-wide revenue growth was 12.6%, and we achieved adjusted EBITDA and adjusted EPS within our latest guidance range and well in excess of our initial guidance range. As we begin 2015, the core markets we serve continue to be challenged by many of the same issues they faced in 2014, driving substantial change at our clients and ultimately creating favorable opportunities for Huron. My view is that we continue to have many opportunities to expand our current services and to add new services, both contributing to the growth potential for all Huron segments.

Let me spend a few minutes on 2014 results before discussing our expectations for this year. I will start with legal before discussing the other segments.

Since the credit crisis began in 2008, our Huron legal segment has had several financial services clients that generated significant revenue. At it speak, those clients were providing greater than $80 million in annual revenue for this segment. As important as those clients were to Huron Legal's performance, we always knew that the unique issues stemming from the credit crisis would ultimately be resolved.

During the second half of 2014, some of the larger investigations were settled, effectively ending the revenue stream we saw from those projects. The wind down began to occur in the summer and the impact to Huron Legal came suddenly and more steeply than we had anticipated in the fourth quarter of 2014.

In addition to the wind out of these significant projects, Q4 was the first quarter in a while where we had no significant transactional work. A combination of these two factors had a substantial impact on the results of our legal segment.

While the impact of these events was significant in 2014, it has given us the opportunity to reevaluate what a more sustainable run rate for this business should be in 2015. We have reset our outlook for Huron Legal with the expectation that these large financial services engagements will not necessarily be a material part of our business in the foreseeable future.

Our relationship with these clients remains strong. And while we anticipate that there will be ongoing revenue from these clients in 2015 and beyond, we do not expect that revenue from these clients will be close to historical levels.

In response to the rapid change in demand, we are aggressively reducing the infrastructure of the legal business so that it's positioned to maintain margins similar to our recent performance in this segment. In order to do that we've initiated some headcount reductions and our actively restructuring our legal related facilities. Let me reiterate that the fourth-quarter shortfall in Legal is primarily attributable to two things -- the sudden settlement of several of our large credit crisis-related engagements and the unusual lack of significant transactional activity in the quarter.

We assume the portion that is attributable to the credit crisis is a permanent reduction in the size of the market, while we believe that the lull we experienced in transactional activity is temporary. The credit crisis and related litigation was unprecedented. It was clear that there would be an eventual diminishment of our large financial services projects and we strategically began to redefine our legal business in 2012 by building a global sales organization, or GSO.

The primary goals of the GSO are to mitigate client concentration within the Legal segment and to expand our services to a broader array of global corporate clients. During the past three years the success of the GSO has enabled us to reduce our top five institutional client concentration from 56% of revenue in 2012 to 35% in 2014. GSO revenue alone has increased 50% in 2014 over 2013, and it has established over 100 new clients over the past two years.

In addition to the GSO, our Huron Legal strategy includes creating a more holistic and robust offering to our corporate law department and law firm operations, and expanding our international presence. Our recent acquisition of Sky Analytics is an example of our efforts to diversify the offerings that we bring to the legal market. The addition of Sky Analytics will strengthen Huron Legal's law department, management offering, and complement our deep consulting experience.

We've seen no indication that we are losing market share or that our presence in the market has diminished even after the wind down of these large credit crisis-related projects. We are confident in Huron Legal's ability to deliver exceptional client results and we expect continued growth off the new reduced client base.

The other three segments -- Healthcare, Education and Life Sciences, and Business Advisory -- are all performing well and we believe they are strongly positioned for continued growth in 2015.

I will now turn to the 2014 performance of these segments. Huron Healthcare had another great year. Our Healthcare team continues to deliver the exceptional revenue cycle, performance improvement and clinical transformation services we are known for. Our primary focus is to help our clients achieve lower costs and improved quality while preparing them for value-based models of care during a time of the consolidation across the provider market.

As we predicted earlier in 2014, performance-based fees were more front-end loaded during the first half of the year than we have seen in the prior two years. The timing of performance-based fees is dependent upon the start date and project duration for contingent engagements. The strong level of performance-based fees earned during the first half of 2014 was related to the completion of engagements that started in late 2012 and early 2013.

We also had several very large assessments begin in the fourth quarter of last year. Those assessments are continuing into the first quarter of 2015 and will likely lead to multi-year engagements.

In addition to the solid financial performance of the Healthcare practice, I am very encouraged by the fact that we continue to be hired by many of the most prominent hospitals and health systems in the country to help them with a complex array of strategic, financial and operational issues.

The Huron Education and Life Sciences segment continued to see a pickup in activity in the fourth quarter, leading to solid performance for the year. Second-half revenues increased 4% over the first half, while utilization improved to 73% compared to 70% in the first half of 2014. Our higher education clients remained remain pressured to lower the cost of education, while improving student outcomes in a market that faces more value scrutiny than ever before. With the sustained demand for our services, our pipeline continues to build as we move into 2015.

In our Life Sciences practice we recently celebrated the one-year adversity of the Frankel Group acquisition. The Life Sciences team is now fully integrated and developing strong synergies to support the needs of our pharmaceutical and medical device clients. The combined team has seen expanded reach with well-recognized global clients, winning new engagements in the US and internationally.

The Huron Business Advisory segment had a solid finish to 2014. The legacy Business Advisory practice achieved strong fourth quarter year-over-year growth. Our middle-market clients continue to look for ways to optimize their performance to remain competitive, and the restructuring business remains stable amidst ongoing uncertainty in various sectors of our economy.

Our enterprise performance management and analytics, or EPM, practice which was acquired in late 2013, achieved aggressive growth in 2014. They continue to work across a wide array of industries and are increasingly collaborating with our other segments to deliver their services to our core verticals.

Turning to our view of Huron for 2015, we are setting our revenue guidance at $880 million to $920 million, and our adjusted EPS guidance at $3.70 to $4. Although we do not provide revenue guidance by segment, I'd like to discuss my expectations for growth in each of our businesses.

Our current 2015 revenue guidance is based on the following key assumptions. Healthcare achieving revenue growth in the mid single digits. Studer Group achieving double-digit revenue growth based on full-year projections. Legal reflecting a lower post credit crisis base of business will have a mid-teen reduction in revenue as compared to 2014 results. Education and Life Sciences achieving mid to high single-digit growth. And Business Advisory achieving mid to high teens revenue growth.

Let me remind you that these assumptions do not include potential new acquisitions. Excluding the impact of the anticipated lower Huron Legal revenue, we expect Company-wide organic revenue growth in the mid single digits year over year, and overall revenue growth of approximately 11% at the mid point of our guidance range.

We are estimating Healthcare performance-based fees in 2015 will be $60 million to $80 million. Our anticipated range of performance fees is lower and wider than the range we guided toward in 2014. More recently we've begun to see an increasing shift among our Healthcare clients towards fixed-fee engagements, in large part due to widespread confidence among our clients that we will deliver the required performance metrics.

We also expect that performance-based fees as a percentage of total healthcare revenue will continue to decline. Irrespective of the anticipated range of performance-based fees, we expect our healthcare EBITDA margins to be consistent with historic levels.

In terms of timing, we expect our Healthcare revenue to be more back-end loaded this year, similar to the patterns that we saw in 2012 and 2013. We have a number of large assessments underway and we have less visibility as to the precise quarter in which the performance-based fees will fall. As a result, we expect Healthcare revenue to be greater in the second half of the year.

As I've mentioned often in the past, we manage our business based on annual forecasts, and we believe that our year-end results in this segment will meet our expectations. We continue to have a strong track record of winning assignments that involve large hospital systems and academic medical centers, where the size and degree of complexity are a perfect fit for Huron Healthcare's competencies. We expect the challenges our clients face will continue and that we will see solid demand for our services in the marketplace in 2015 and beyond.

We are excited to have recently closed our acquisition of Studer Group which will strengthen our core solutions and help our clients be better prepared to respond to the evolving trends toward a more patient-centric care environment. As hospitals continue to look for ways to lower costs and improve the quality of patient care in their organizations, Huron Healthcare and Studer Group are the perfect combination to address all aspects of their transformation, operationally, clinically and culturally. We anticipate that Studer Group will have low double-digit revenue growth and will be accretive to earnings this year on an adjusted basis.

Our historical healthcare related acquisitions of Wellspring in 2007 and Stockcamp in 2008 demonstrate Huron's ability to use corporate resources to drive significant value for our shareholders. We expect the Studer Group acquisition will provide similar opportunities for value creation for our investors. And we are also excited about the added value that our combined services offered to our healthcare clients.

Turning to Huron Legal, assuming the reduction in our credit crisis-related revenue is permanent, we will be operating under a new normal for this segment as it relates to financial performance. In 2015 we anticipate a mid-teen decline in year-over-year revenue as this business evolves absent large credit crisis-related work. And we will use the new base for projecting future growth in this segment.

Despite the reduction in our revenue assumptions, due to the variable nature of labor in this business, and the aggressive cost reductions already underway, we anticipate operating margins to continue to be consistent with recent historical levels for Huron Legal in 2015. However, this segment remains highly dependent upon transactional work, and the traditional lumpiness in this business makes it difficult to predict.

Despite the significant revenue declined attributable to the wind down of the credit crisis-related investigations, our view of the market remains promising. The growth of our GSO-related business over the past three years reflects a continuing narrowing of the market to e-discovery firms that are able to address industry-driven security standards, an attribute that Huron Legal has solidly achieved. The oft-mentioned proliferation of electronic data and media remains a critical part of the growth of this industry. Together with our increasing ability to manage the global needs of our clients we are confident that our share of the growing business will increase at an attractive level from our newly reduced base of business for Huron Legal.

In our Education and Life Sciences segment we expect to see mid to high single-digit revenue growth based on continued solid demand prospects in those industries. The higher education industry is undergoing rapid and dramatic change, and our clients are feeling unabated pressure on the top and bottom line, combined with increasing public demands for improved outcomes.

Similarly, in the Life Sciences practice, our clients face a continued need to drive top-line results, improve their product pipelines, and mitigate regulatory risk. We believe we are well-positioned in this segment for the year.

More and more higher education institutions and corporations are turning to the cloud for their administrative needs, which creates opportunities for our education and EPM and Analytics practices. We are investing in our businesses to be able to deliver both Oracle cloud solutions and Workday enterprise cloud solutions. With the support of Workday's senior executives, and because of our great relationship with higher education institutions, we were able to become a Workday services partner in October.

After considering acquisitions in this space we decided to build rather than buy our Workday practice as the costs will be significantly less than pursuing a transaction. In 2015 we are making an investment to rapidly grow our Workday resources, and Mark will discuss our investments shortly. We are well underway in our hiring and training efforts to support our growth in this new practice. We anticipate revenue generation from our Workday practice starting in the second half of 2015, and we are already actively in the market with Workday today.

Finally, we anticipate mid to high teen growth in our Business Advisory segment. The EPM and Analytics and the legacy Business Advisory practice have strong backlog heading into 2015, including multiple broker-dealer engagements.

Let me conclude by saying how pleased I am with our strong 2014 performance, which would not be possible without our highly talented professionals who have positioned us for success in recent years. I am confident in the talent of our people and the opportunities created in our changing markets. And I am proud of the culture that we have built that enables us to be so confident in the future.

Now let me turn it over to Mark for a more detailed discussion of our fourth-quarter results. Mark.

Mark Hussey - *Huron Consulting Group Inc. - CFO & COO*

Thank you, Jim. And good afternoon, everyone. Before I begin please note that I'll be discussing non-GAAP financial measures such as EBITDA, adjusted EBITDA, adjusted net income and adjusted EPS. Our press release, website and 10-K each have reconciliations of these non-GAAP measures to the most comparable GAAP measures, along with a discussion of why management uses these non-GAAP measures.

Also, our previously announced acquisitions of Sky Analytics and Studer Group, which closed in January and February, respectively, are not included in our fourth-quarter financial results. Sky analytics will be included within our Huron Legal segment and Studer Group will be included in our Huron Healthcare segment beginning in the first quarter of 2015.

Now I will walk through some of the key financial results for the quarter. Revenues for the fourth quarter of 2014 were $193.1 million, down 8.6% from $211.3 million in the same quarter of 2013. Revenues for the fourth quarter of 2014 reflect our acquisitions of the Frankel Group, Vonlay and Threshold Consulting, which in the aggregate generated $12.7 million of revenues, adding 600 basis points to total revenue growth in Q4.

As I'll discuss in further detail, the year-over-year decline in revenue is primarily attributable to two factors. First, in Q4 2013, we benefited from significantly higher-than-expected performance-based fees, creating a difficult comparison. Second, as Jim mentioned, Huron Legal experienced a substantial decline in revenue during the fourth quarter due to a more suddenly than anticipated wind down of e-discovery work from some larger financial services investigations, as well as the absence of large transactional work.

Operating income decreased $11 million or 29.9% to $25.9 million in Q4 of 2014 from $36.9 million in Q4 of 2013. Operating margin was 13.4% in Q4 2014 compared to 17.5% in Q4 of 2013. The decrease in operating margin in Q4 2014 was primarily attributable to an increase in salaries and related expenses as a percentage of revenues, as well as restructuring charges from consolidation of office space.

Adjusted EBITDA was $35.6 million in Q4 2014, or 18.4% of revenues, compared to $44.6 million in Q4 2013, or 21.1% of revenues, due primarily to higher salaries and related expenses as a percentage of revenues. On a full-year basis, adjusted EBITDA is a percentage of revenues remained even with 2013 at 19.2%.

Net income from continuing operations was $12.8 million or $0.57 per diluted share in the fourth quarter of 2014, compared to $24.1 million or $0.96 per diluted share in the same quarter last year. Adjusted non-GAAP net income from continuing operations was $16.8 million or $0.74 per diluted share in the fourth quarter of 2014, compared to $24 million or $1.05 per diluted share in the same period of 2013. For the full year, 2014 adjusted non-GAAP net income from continuing operations was $78.5 million or $3.42 per share, compared with $67.5 million or $2.96 per share in 2015.

Our effective income tax rate in the fourth quarter of 2014 was 42% compared to 38.2% a year ago. The increase in our effective tax rate for Q4 of this year was primarily attributable to higher state taxes and higher losses in foreign jurisdictions with no tax benefit when compared to Q4 2013. This was partially offset by the R&D tax credit realized in Q4 2014.

On a full-year basis, our 2014 effective tax rate was 31% inclusive of the one-time tax benefit recorded in Q1 2014 resulting from the check-the-box election. On a normalized basis, excluding the nonrecurring tax benefit, our effective tax rate was 40%.

Now I will make a few comments about the performance of each of our operating segments. The Huron Healthcare segment generated 56.7% of total Company revenues during the fourth quarter of 2014. This segment posted revenues of $109.5 million for the fourth quarter of 2014, down $4.6 million or 4.1% from the fourth quarter of 2013.

Revenues for the fourth quarter of 2014 included $7.2 million from our acquisition of Vonlay. Excluding Vonlay organic revenue decreased 10.4% compared to the year-ago quarter, primarily due to the higher-than-expected level of performance-based fees in Q4 of 2013. Performance-based fees in Q4 of 2014 were $33.2 million compared to $45.5 million in the same quarter last year.

On a full-year basis, Huron Healthcare revenue increased 15.9% including the impact of the Vonlay acquisition which added $20 million to 2014. On an organic basis, revenue increased 10.3% for the year. Performance-based fees for the full year 2014 were $103.2 million compared to $104.5 million in 2013.

As we've stated on recent calls, 2014 was anticipated to be a more front-end loaded year for Huron Healthcare than in the prior two years. I'd also like to remind everyone that the timing of performance-based fees can vary significantly. They're not driven by a seasonal pattern but rather the mix of engagements at any point in time.

Operating income margin for Huron Healthcare was 38% for Q4 2014 compared to 44.2% for the same quarter in 2013. The decrease in margin was primarily due to higher salaries, bonus and related expenses as a percentage of revenues, as well as an increase in intangible assets amortization resulting from our acquisition of Vonlay. As expected, utilization in this segment sequentially improved in the fourth quarter. Utilization was 78.6% in Q4 2014 compared to 74% in the third quarter of 2014.

Our Huron Legal segment generated revenues of $29.2 million in Q4 2014 compared to $51.1 million Q4 of 2013. As Jim mentioned, the wind down of work from several large credit crisis-related investigations came much more suddenly and more steeply than we anticipated. In addition, we did not have significant transactional work in the fourth quarter which also negatively impacted revenue.

The operating income margin for our Huron Legal segment was 23.7% in the fourth quarter of 2014 compared to 25.6% in the same quarter of 2013. Despite the significant decline in revenue during the quarter, this segment largely maintained its operating income margin in line with prior periods.

There are two factors that sustained margins in the quarter. First, the reduction in revenue was highly concentrated in the discovery services business which benefits from a variable cost model that aligns resources with demand. In addition, as many of you know, our practice bonus plans are based on achievement of annual EBITDA. When actual results fall short, accrued bonuses are reduced which protects our margins.

In summary, lower contractor expenses, along with reversals of accrued bonus and other cost reductions, enabled the segment to deliver a 25.1% operating margin for the year compared to 23% for 2013. And as Jim mentioned, we are aggressively managing this segment to maintain 2015 operating margins on a lower revenue base.

Huron Education and Life sciences segment generated 19.7% of total Company revenues during the fourth quarter of 2014. The segment posted revenues of $38.1 million in Q4 2014, including $4.9 million from the Frankel Group which was acquired at the beginning of 2014. Revenues for Q4 of 2013 were $35.9 million.

As expected, revenues in the second half of 2014 were stronger than in the first half of the year as demand strengthened in both the Education and Life Sciences practices. The operating income margin for Huron Education and Life Sciences was 22.5% for Q4 2014 compared to 20.3% for the same quarter in 2013. Utilization for the fourth quarter of 2014 was 74.2% compared to 66% reported in Q4 of 2013.

The Huron Business Advisory segment generated revenues of $15.7 million for the fourth quarter of 2014 compared to $9.6 million in Q4 of 2013. Both our legacy Business Advisory and EPM and Analytics practices delivered very strong results in the quarter. On a full-year basis, the legacy Business Advisory practice grew 9.4%, while the EPM and Analytics practice contributed $30 million in 2014, including $600,000 in the Threshold acquisition in October of 2014.

The operating income margin for the Huron Business Advisory segment was 12.4% in Q4 2014 compared to negative 8.2% for the same quarter in 2013. On a full-year basis, operating margin was 22.3% compared to 20.8% in 2013.

Other corporate expenses not allocated at the segment level were $26 million in Q4 2014 compared with $26.7 million in Q4 2013. In Q4 2014 we incurred a restructuring charge of $2 million related to consolidation of our Washington DC facilities, as well as transaction related costs of $1.3 million.

Now, turning the balance sheet and cash flows. DSO came in at 77 days for the fourth quarter of 2014 and was essentially flat compared to the third quarter of 2014. We continued to strengthen our balance sheet in Q4. Total debt includes both a $250 million face value of convertible notes and $144 million in senior bank debt, for total debt of $394 million.

We finished the year with cash of $257 billion or net debt of $137 million. This was a $37 million improvement over Q3 of 2014 and an increase of $26 million compared to year end of 2013. Cash flow from operations from the year was over $146 billion, enabling us to fund $71 million in acquisitions, including our investment in Shorelight, $50 million in share repurchases, $26 million in CapEx and $18 million related to transaction and hedge cost for the convertible debt offering.

Now let me summarize the guidance that was included in the press release. Both of our recent acquisitions. Sky Analytics and Studer Group, are included in our guidance range. We have not assumed any share repurchases that may occur throughout the year under our current $50 million authorization, under which we have not yet made any repurchases.

With that said, for the full year 2015, we anticipate revenues before reimbursable expenses in a range of $880 million to $920 million, EBITDA in a range of $169 million to $180 million, adjusted EBITDA in the range of $173 million to $184 million, net income in a range of $61 million to $67.5 million, adjusted non-GAAP net income in a range of $84.5 million to $91 million, and, finally, GAAP EPS between $2.65 and $2.95, and adjusted non-GAAP EPS in the range of $3.70 to $4.

Assuming the midpoint of our guidance range, we expect cash flows from operations of approximately $155 million. Capital expenditures are expected to be approximately $30 million. Weighted average diluted share counts for 2015 are estimated to be 22.8 million. And, finally, with respect to taxes, you should assume an effective tax rate of approximately 40%.

Let me add some color to our guidance, starting with revenue. The mid point of the revenue range reflects an 11% increase from 2014 revenue of $811 million. Embedded in the guidance range are expected performance-based fees in the Healthcare segment in a range of $60 million to $80 million

Let me also add some comments on the impact of the Studer Group acquisition. Post-closing revenues for Studer Group are estimated in the range of $70 million to $75 million for the balance of 2015. Our revenue range for Studer Group includes an estimated $2 million to $3 million reduction in revenue and adjusted EBITDA for the impact of purchase accounting on deferred revenue.

Note that we will not complete the purchase accounting for Studer Group until later in Q1. We expect the transaction to be accretive to Huron's 2015 non-GAAP adjusted EPS in the range of $0.47 to $0.52, consistent with the range we noted on the date of the announcement.

On an organic basis, our outlook for the Healthcare segment is for organic revenue growth in the mid single digits following a strong year of 10% organic growth. In Huron Legal we expect a lower baseline in 2015, with the year expected to be down in the mid-teen percentage range versus 2014. As Jim mentioned, we're aggressively implementing the changes necessary to align our infrastructure to the lower revenue base. The restructuring charges included in our guidance range reflect the reductions in headcount and adjustments to our document review capacity that we expect will enable us to sustain margins near historic levels.

In Huron Education and Life Sciences, we expect mid to high single-digit growth, with the Frankel Group acquisition now fully reflected in 2014, where expected growth rates are all organic. In the technology practice within Education consulting, Jim mentioned our investments in Workday capabilities. We expect 2015 segment operating margins to include approximately 250 basis points of investment, reflecting the hiring, training and other startup expenses for this initiative. In Business Advisory we also continue to see mid to high teen growth for 2015, and we also expect to maintain our operating margins in the segment.

Turning to the total Company, Huron's adjusted EBITDA margin is expected to be in the range of 19.7% to 20%, an increase of 50 to 80 basis points compared to 2014. This primarily reflects the favorable mix of the Studer Group acquisition and lower corporate cash SG&A expenses as a percentage of revenue.

There are some offsets to the adjusted EBITDA margin that our embedded in our guidance range that are worth noting. These include our investments in Workday capabilities, along with the purchase accounting impact on deferred revenue, Q1 transaction expenses related to acquisitions. Collectively, these items are expected to reduce 2015 adjusted EBITDA margins by approximately 85 to 90 basis points at the mid point of our revenue guidance range.

The 2015 adjusted EPS at the mid point of the range of $3.85 reflects growth of 12.6%, and includes approximately $0.20 per share for the impact of the Workday investment, Studer Group purchase accounting, and transaction-related expansions expenses I just mentioned. With respect to adjusted EBITDA, adjusted net income and adjusted EPS, there are several items you'll need to consider when reconciling these non-GAAP measures to comparable GAAP measures. Reconciliation schedules that we included in our press release will help walk you through these reconciliations.

Thanks, everyone, and now we'd like to open up the call to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Tim McHugh.

Tim McHugh - *William Blair & Company - Analyst*

On the Legal segment, your guidance for mid teens decline this year, if I just annualize Q4 I get more like a mid 30s percentage decline. So, what bridges the gap there? Is that transactional work that you didn't have in Q4 that you would normally expect? It seems like a lot of transactional work

Mark Hussey - *Huron Consulting Group Inc. - CFO & COO*

Tim, yes, that is the difference, is that we don't think that's gone away. As Jim mentioned, we think that part of the decline was temporary, and so our guidance range reflects that transactional work occurring throughout the year. Again, not a lot of visibility in terms of when, it tends to be lumpy, but we think that we'll continue to have that work within the practice.

Tim McHugh - *William Blair & Company - Analyst*

Okay. So, if you don't have visibility, and it was weak in Q4, how do you go about trying to make an assumption on that? Do you assume similar to your full year last year? If you can give us any color.

Jim Roth - *Huron Consulting Group Inc. - CEO & President*

Tim, this is Jim. This is the same challenge we always have for practices that are largely transactional like this. We base it, in part, on, first of all, we go back and we look at some history for multiple years, and there really haven't been periods like we've just experienced where we had none of that transactional type revenue. So that's one thing that just tells us it's likely an anomaly.

There is no reason to believe that we have had any change at all in terms of our market presence. And, so, the final part that gives us some comfort is that we do see some activity, some other things that are coming on through the GSO that are likely to lead to something. How much and when it's hard to say, but we look at this as pretty much of a temporary lull.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And then the added headwind, I missed the EPS number. I think you said $0.25 to $0.30. The comments about acquisition-related expenses, as well as the impact of purchase accounting, for Studer, on the last call when you had talked about $0.47 to $0.52 in January in terms of the accretion, was that not factored into that $0.47 to $0.52?

Mark Hussey - *Huron Consulting Group Inc. - CFO & COO*

Tim, let me clarify that. It was factored into the $0.47 to $0.52. The piece -- obviously we didn't talk about it at the time -- was the Workday investment. So, if you look at the delta there, which is what's different, it's probably about $0.10 a share, which is the 250 basis points on the ELS margins. So, the $0.47 to $0.52 was inclusive of those transaction expenses but I just called out those as those are going to affect the EBITDA margin for the year and we expect those not to be recurring

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Tim McHugh - *William Blair & Company - Analyst*

Okay. And then just on the Healthcare business, it sounds like you're still in the middle of the assessments for some of the larger engagements that are ramping up. How far into those and how much visibility do you have for the scope and size of them? I know you've historically talked about having a high conversion rate but how much visibility do you have at this point in terms of the nature and contribution that you might expect?

Jim Roth - *Huron Consulting Group Inc. - CEO & President*

Tim, this is Jim. We actually have quite a bit of visibility. What we don't always have visibility in is a precise start date.

And part of the issue that we run into, particularly when you get into larger health systems, or certainly multiple hospitals, is that the level of coordination that it takes to be effective in what we're trying to do is much more difficult and complicated than it would be just, for example, for a stand-alone hospital. So, we, very appropriately, just remained patient because for us to be successful, it's got to be the right time and place.

The clients always want this to go on as quickly as it can, but they, too, have to orchestrate this internally. So that's a large part of what we end up doing. That's part of what we do, is we just want to make sure that it gets sequenced at a point in time where both we and the client can be more successful. I think once they get underway, at this stage, pretty deep into the assessments, we've got a pretty good sense as to where it's going, what the opportunities are, and the question is just getting to the point where we can get started

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Tim McHugh - *William Blair & Company - Analyst*

And maybe just one -- if the shift is from contingent fees to fixed fees, do you see more revenue sooner in the engagement because you're billing for that all along the cycle? Or how do we think about how that impacts the lifecycle of revenue from a project, if that's what clients are selecting.

Jim Roth - *Huron Consulting Group Inc. - CEO & President*

Tim, let me respond to that in two ways. Let me start indirectly and then I'll come back and directly respond,

Indirectly, what we get really comfortable with is our expectations for the year for Healthcare. What we've always said is that we are going to have variations among quarters. Some, as you've seen before, we've got more revenue than we anticipated, sometimes less. And it's always just a factor of having these things work through.

We've got a client right now where we had actually started talking very seriously about it being a fixed-fee engagement, and we've gone pretty far down the path, and now they're beginning to think maybe it should be contingent. So, these are things that we don't really care. We really want this to be the client's decision. But it's and example of why it gives us a little bit of pause in being too precise in terms of when the revenue is going to come from some of these jobs.

We feel pretty good about the fact that it is going to come, we don't know exactly when, we don't know if it's going to be fixed, a run rate, or whether it's going to be contingent. But we know we are going to achieve our results that we want to hit when we get done.

So, that's the broader picture that we're dealing with. And you multiply that times the number of clients that we have ongoing and you get a sense in terms of how -- it can be a little challenging for us to pick and choose exactly what kind of revenue and when it's going to fall. But having said that, we've done this sufficiently we know what are opportunities, particularly when we've gone through a long assessment and we've got a pretty good sense as to what we're up against and how we're going to address the client' needs.

That gets back now to more directly. I think if some of these things end up being fixed fee, we then have a pretty good sense as to how the run rate's going to flow out over the coming month and quarters. If it's contingent or performance-based then it gets a little bit more rough, both in terms of the exact timing and the amount.

We take all these things into stride. As you know, we have a pretty detailed list that goes out, not just for the rest of the year but certainly into next year in terms of how we expect things to go. But what we deal with quite a bit is the ebb and flow of the actual jobs and the decisions that the client makes in terms of how they want to proceed. I hope that answers your question.

Tim McHugh - *William Blair & Company - Analyst*

Yes, that's great. And just to be clear, the mid single-digit growth for Healthcare is exclusive of Studer.

Jim Roth - *Huron Consulting Group Inc. - CEO & President*

Yes, that's right.

Tim McHugh - *William Blair & Company - Analyst*

Okay Thank you.

Operator

Paul Ginocchio, Deutsche Bank.

Paul Ginocchio - *Deutsche Bank - Analyst*

First question -- what is the head count growth of Healthcare at the end of the year excluding Vonlay?

Mark Hussey - *Huron Consulting Group Inc. - CFO & COO*

Paul, you're asking on year on year or sequentially?

Paul Ginocchio - *Deutsche Bank - Analyst*

Year on year.

Mark Hussey - *Huron Consulting Group Inc. - CFO & COO*

We ended the year within Healthcare, at the end of the period we had 1,230 people. So, if you take Vonlay out, largely it was relatively flat for the year. And that reflects some of the increases in productivity that the practice has been working on consistently. So, it's not a surprise that we're a little bit less. Frankly, again, I think they've got some more flexibility in terms of the pace of hiring relative to revenue growth.

Paul Ginocchio - *Deutsche Bank - Analyst*

Okay. And then as we look at your mid single digits for next year, I was thinking it was going to be closer to high single digits, at least that was maybe my view. Did anything change besides the shift on performance fees on your view, or is that the biggest change maybe?

Jim Roth - *Huron Consulting Group Inc. - CEO & President*

Paul, this is Jim. Nothing's changed. I'll tell you, we see this everyday. I'm been in the market myself. The issue that our clients are facing are remarkably similar and, in many cases, actually, are probably getting more acute. Issues around consolidation, even among healthy hospitals, make for a very big challenge in terms of trying to really get the successful clinical integration among recently integrated institutions.

We see, actually, an increase in terms of the kind of demand we're hoping to see. What you look at when Mark talks about the headcount, when we talk about the sequencing of the quarters, it comes and goes but we see very strong demand. And, probably equally important, we feel very comfortable with our presence in the market in terms of the projects that we're getting exposed to and the projects that we're winning.

Paul Ginocchio - *Deutsche Bank - Analyst*

Thank you, Jim. And I think you were trying to communicate earlier that even with the shift from performance fees to fixed fees, there's really no change in your operating margin. Can you just flush that out a little bit more? It seems like in, obviously, periods where you have very high fixed performance fees, you do have a higher margin. How do we think about that going forward with that lower performance fees?

Mark Hussey - *Huron Consulting Group Inc. - CFO & COO*

Paul, when you look at any given quarter, it absolutely does influence the margins because you've got a mismatch of when the effort and costs were incurred versus when the revenue is coming in. But when we price engagements, we're essentially starting with our cost and layering on top a contribution margin. And we want to recover that contribution margin either way.

We may have some additional upside in contingent because we always take a little bit of a premium because of the risk profile. But, again, they're largely within the range that we would expect to achieve for the year. And, so, our estimates would not be materially different if they were a lot more contingent or a lot less contingent.

Jim Roth - *Huron Consulting Group Inc. - CEO & President*

And, Paul, the only thing I would add is I just want to remind you that our internal estimates are certainly greater. We believe that we've got higher estimates that are achievable. What we don't want to do is to get too aggressive in terms of assumptions about timing and even whether something is going to be performance-based or fixed fee. We like to just see it roll out. The guidance we provide we think is certainly achievable, and we obviously strive internally to achieve higher, both in terms of margin but also in terms of revenue.

Paul Ginocchio - *Deutsche Bank - Analyst*

Understood, thank you.

Operator

Tobey Sommer, SunTrust.

Mike Larodin - *SunTrust Robinson Humphrey - Analyst*

Hi, this is actually Mike [Larodin] for Tobey. Can you provide some color on growth in the recurring revenue portion of your business, specifically related to software? And do you have aspirations to materially increase that as a percentage of total revenue in the near term? Is that something you guys were thinking are?

Mark Hussey - *Huron Consulting Group Inc. - CFO & COO*

This is Mark. Mike, we don't actually think all that much about it. In Legal, certainly the acquisition of Sky provides a new opportunity because it opens up the door with clients that have a more recurring nature of the revenue. It's from a very small base and is going to grow, hopefully rapidly, but it will not necessarily move the needle.

In the rest of our practices it varies a little bit across each one of them. Within our Click Commerce business we sell licenses, which tend to be, again, nonrecurring but there's a maintenance portion of that that's a residual.

And the same thing in healthcare. There's probably somewhere around 15% of that business that's maintenance of ongoing, primarily revenue cycle, software that's embedded in the service delivery of the offering. We'd love to have more recurring revenue but it is not a stated objective. It's really a mix of how we deliver value to the clients.

Mike Larodin - *SunTrust Robinson Humphrey - Analyst*

Okay, thank you. And then just one follow-up on the headcount growth topic. Can you talk a little bit about your ability to continue the double-digit headcount growth. And which of the segments have you found to be most challenging in terms of ability to grow headcount?

Jim Roth - *Huron Consulting Group Inc. - CEO & President*

This is Jim. I don't know that we've had challenges in growing headcount in any of our segments. We have always done our best to try to match supply and demand, both within segments and actually within practices within those segments.

That's a continual ebb and flow that we do every week, every month, every year, as we adjust to demand. But I think at this stage, particularly in this market, we really don't foresee any trouble increasing headcount when we want to increase headcount.

Mike Larodin - *SunTrust Robinson Humphrey - Analyst*

Okay, great. Thank you very much.

Operator

Jason Anderson with Stifel.

Jason Anderson - *Stifel Nicolaus - Analyst*

Hi, guys. Your guidance range on EPS is a bit wider, I think, than normal. And obviously there's always variabilities in the business. But I was wondering if you could maybe provide some additional color on what your thoughts are between the high end and the low end. Are there certain key assumptions between those that you could talk about?

Mark Hussey - *Huron Consulting Group Inc. - CFO & COO*

This is Mark. I think we did actually widen the guidance range this year. I think a little bit is just, as we come into a year that's got a little bit more uncertainty because of the legal consulting business, we probably gave ourselves a little bit more room on the downside.

What I can tell you is that we are certainly not aiming to be at the downside or the lower end of that guidance range. That would not be a good outcome for Jim or me from a compensation standpoint. So, we definitely have higher aspirations than that. But we think that it's appropriate at this point to start the year with a little bit more flexibility around what that expectation might look like. Jim, I don't know if you had anything.

Jim Roth - *Huron Consulting Group Inc. - CEO & President*

Yes. The only thing is, I think we've established a history here in recent years where we put together guidance that we certainly believe is achievable and that, rather than make it an incredibly aspirational thing, we have aspirational goals internally, on the outside we put together estimates that we think are achievable and that we work very hard to try to beat them. And that's the position we're in right now.

There are, as Mark indicated, some fairly significant uncertainties, particularly around Legal. And rather than get ahead of ourselves and get overly aggressive in making assumptions about what's going to happen and when it's going to happen, we felt comfortable with this range at this point in time.

Jason Anderson - *Stifel Nicolaus - Analyst*

Great, thanks. And then on the performance-based fees, coming in the $60 million to $80 million range you talked about, I don't know if you could talk about the trend there. I know you've talked about as a percentage of total revenue it's going to get smaller but it looks like it may be getting smaller in absolute and it could be a timing thing. But do you think the clients are going away from performance-based, particularly as successful as you've been at outperforming them?

Jim Roth - *Huron Consulting Group Inc. - CEO & President*

I think maybe a little bit. But I'm not sure that there's been data points right now that would give us that much comfort, that that's going to be a permanent trend. As we mentioned a little while ago on one of the answers to one of the questions, it evolves very quickly and it's really something that not only do we have no control over it but we actually really prefer it to be in our clients' hands because it's the kind of arrangement that they prefer, and that makes us much more comfortable.

I don't think it will be lower than this but it could certainly be higher than this for a variety of reasons, and I think we're just going to wait and see how the year plays out. I think in 2014 -- I think that was the year -- we actually lowered the guidance range for performance-based fees and then we actually ended up beating even the original one. I think it's just one of those things, we try to be cautious on the front end until we get a little more certainly, and that's where we're at right now.

Jason Anderson - *Stifel Nicolaus - Analyst*

Great. And then one more I had. If you could maybe talk about in 2015 maybe your cash priorities between debt paydown, repo. And then maybe speak to your appetite for more acquisitions, especially after a sizable one here that you just closed.

Jim Roth - *Huron Consulting Group Inc. - CEO & President*

This is Jim. I'll start with the acquisition side and let Mark handle the other two. I think on the acquisition front we said, before the acquisition of Studer Group, that we had always had a very robust inventory of entities that we're looking at, that were attractive. And we were certainly fortunate to be able to close the Studer Group opportunity.

But we still have a very robust group of things that we are looking at and it certainly is part of our job and we spend a lot of time doing that. It's an exciting area for us to be in. And we feel probably the part that makes us the most excited is that we have such a solid platform with which to acquire into. And we feel very confident in our integration ability. So, it's a long way of saying we feel very good about the pool of opportunities that are out there, and we will continue to evaluate them with the same kind of focus that we have in the past.

Mark Hussey - *Huron Consulting Group Inc. - CFO & COO*

Jason, on the question regarding share repurchase and debt paydown, clearly with the Studer acquisition, we will be into our revolver, and then shortly after that we have our annual bonus payment that happens in Q1. So, we will peak in terms of our debt level here, which is a normal timeframe for us, really, absent an acquisition anyway.

We will likely, in the absence of price opportunities in the marketplace for share repurchase, definitely be working on just paying down the revolver because it's the best use of cash on an immediate basis. But we're going to have, as we mentioned, the mid point of our range there was about

$155 million. If you look at our planned debt service and CapEx, we're going to have roughly $100 million of free cash flow in 2015. So, that gives us a lot of flexibility to do a lot of things. So, you could see any and all of the above.

Jason Anderson - *Stifel Nicolaus - Analyst*

Great, thanks for all that.

Operator

Randall Reece.

Randall Reece - *Avondale Partners - Analyst*

Good afternoon. First of all, I was wondering if the percentage of contracts that include performance-based fees -- if that's responsible for all the change in your mix, or if, within contracts, the percentage of performance-based, the performance-based component, is changing, or if it's a blend of the two.

Jim Roth - *Huron Consulting Group Inc. - CEO & President*

Randy, this is Jim. I think, A, it's a blend of the two. But, B, I think we're also still at a point in time right now where, if you asked the same question three months from now, you may get a different answer. So, I think this is more like a -- it's a balance sheet type of view of things as opposed to an ongoing trend.

Certainly, we've referenced before that our clients, we have a long, deep history of being very successful for our clients. And there's no question that one of the most important things that our clients do before they hire somebody is they talk to other hospitals, and they try to find out how we've done. And I think the answer to that question is typically very good. So, places legitimately go back and they question whether they should have fixed fee or performance-based.

I do know that one of the challenges that a lot of our clients have, again understandably, is that if you do do fixed fee, then it's harder to explain internally for, I think, that organization to go back and say that you're going to have a fairly large engagement and that you hope it works out. So, I think that's why a lot of places end up reverting back to performance-based.

But it all depends upon their culture, their preference, the nature of the work that needs to be done, and their sense as to how much progress we're going to be making. But I think it's too early to call it a trend. We've always said that it is going to decline as a percentage of the total revenue, and I expect that to continue. But I think we're going to still see blips up and down in terms of whether the performance-based fees are a larger or smaller percentage of the total revenue.

Randall Reece - *Avondale Partners - Analyst*

It creates a bit of confusion for timing reasons in understanding the growth rate of the business. If and when you're pulling in this big bunch of fees in the next year it's a lower number. The underlying consulting activity looks like it's a lot stronger than that mid single-digit growth rate that you're talking about. What kind of headcount growth are we looking at in guidance?

Mark Hussey - *Huron Consulting Group Inc. - CFO & COO*

It's consistent with the revenue ranges we've described to you, Randy, which essentially means we're looking to keep utilization steady where it is, build rates steady where they are. That's our going-in assumption. The practices really get rewarded for managing utilization versus adding headcount. So, there's probably a slight bias to stretch people because it's better for them economically, better actually for everybody economically. So, I would say a starting point for guidance is consistent with the revenue ranges projected.

Randall Reece - *Avondale Partners - Analyst*

Where do you expect the cash and debt levels to end up at the end of this quarter?

Mark Hussey - *Huron Consulting Group Inc. - CFO & COO*

Actually, I should know that off the top of my head because I look at it every single day. Cash, what we've done is we've essentially funded the Studer acquisition with all the remaining cash on the balance sheet. And then on top of that, we've drawn the balance in terms of revolver.

So, our net draw into the revolver is probably going to be -- and then we've got the bonus on top of that -- so we'll probably be somewhere around $170 million. Probably about -- you know what? -- let me come back and just confirm that. I think it will be about $420 million, is my guess based on right now on the revolver. And you've got $140 million roughly on the term loan. So it'll be a little bit over $500 million in total.

Randall Reece - *Avondale Partners - Analyst*

All right, thank you very much.

Operator

Joe Foresi.

Joe Foresi - *Janney Montgomery Scott - Analyst*

Hi. I was wondering, could you give us some better insight into how -- it seems like the Legal downtick snuck up on you a little bit. What were your original expectations? And how did it sneak up on you?

Jim Roth - *Huron Consulting Group Inc. - CEO & President*

Joe, this is Jim. Certainly we saw back in, as we indicated earlier in my discussion, we saw the beginning of what really became a series of some settlements that took place -- that began to take place -- in the summer months. The spigot doesn't necessarily drop off that same day. But, also, the other thing we deal with sometimes is that the spigot begins to dry up before something's been announced.

So, we were really, at the end of the third quarter, thinking that we would be at around $200 million year end for Legal. And we began to see some deterioration in the run rates in the early part of the fourth quarter. And then things really began to fall pretty precipitously in the last part of November, and certainly in December.

But we ended up the third quarter thinking this was actually going to be a pretty good year for Legal. It came very quick and that's just the nature of the business. I think it happens. We don't have disputes and investigations. It happens the same way sometimes in that business. And it happened in our e-discovery area.

The concept of it occurring was not a big surprise. The pace, the suddenness of it, and the depth of it was a surprise.

Joe Foresi - *Janney Montgomery Scott - Analyst*

Got it. And given the fact that these are event-driven opportunities, and I know that you're trying to get some law firms on MSAs, how much of an emphasis do you plan on putting on that business going forward, and particularly this part of the business that tends to be more in the event side?

Jim Roth - *Huron Consulting Group Inc. - CEO & President*

I think one way of looking at this, we referenced in the call that we're working from a so-called new normal because we're going to establish a base. I think if the credit crisis information, the credit crisis situation had never occurred at all, I think we'd be sitting here expecting the same kind of growth rates in this business that we've seen in the past.

The real actions that we're taking right now are simply adjusting for what we've determined to really be an unusual event that is -- I don't know if predictive of the exact end but it's certainly a dramatic diminishment of the credit crisis type of engagements that we were seeing. So, the rest of our practice is really proceeding as though it always had been. All the adjustments, both in terms of headcount but also in terms of legal facilities, are really a reaction to that one-time end of that type of part of the business.

We view it a little bit more as a change in the size of the market. But absent that, if you take that piece of it out, we view the market the same way we've viewed the market for the last two, three, four years, and that is it's proliferation of data that is growing the business. It's the fact that we as a Company have created a practice that has passed a lot of security audits, which is critical to our clients these day. And the depth of our business, the experience of our people, all puts it together.

So, we view nothing different in this practice, absent this fairly significant drop-off that came very quickly that related not on a broad-based level but just to one particular part of the market.

Operator

(Operator Instructions)

Paul Ginocchio.

Paul Ginocchio - *Deutsche Bank - Analyst*

Thanks for taking my question. It's for Mark or Jim. We're nearly two-thirds of the way through the first quarter. Could you help us just understand where revenue for the Legal consulting division could come in, in the first quarter? Is it going to be flat Q1, up 20%? Is there a way, based on what you've seen so far, quarter to date? Thank you.

Jim Roth - *Huron Consulting Group Inc. - CEO & President*

I think we're obviously reacting to a diminished level of revenue in Q4. I think that at this stage, the way we're looking at 2015, I would expect there to be a growing trend. So I certainly expect there to be more revenue in the second part of the year than the first part of the year in that segment.

And how that falls in the quarter, it's hard for us to estimate. But I suspect that we will see -- our hope is that we would see more normal patterns evolving during the first quarter, and that we would be in much better shape in the second quarter.

But, again, this is a very transactional type of business. We've seen before -- again, if we take the credit crisis thing away, we've seen big blips up and big blips down before. And the activity we see in the market certainly tells us that none of that has changed. There's some opportunities out there that we think could generate some decent revenue.

But how and when they're going to come about is just too hard for us to predict. So, we're probably a little bit more conservative in the first half and then we'll expect a more robust second half.

Operator

Randy Reece.

Randall Reece - *Avondale Partners - Analyst*

When I look at the change in legal revenue from the first half run rate to the fourth quarter, how much of that change was transactional, in your analysis?

Mark Hussey - *Huron Consulting Group Inc. - CFO & COO*

Randy, this is Mark. The transactional impact was probably about half.

Randall Reece - *Avondale Partners - Analyst*

All right, very good. Thank you.

Operator

Mr. Roth, we have concluded the allotted time for this call. I'd like to turn the conference back over to you.

Jim Roth - *Huron Consulting Group Inc. - CEO & President*

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

Operator

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