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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to Huron Consulting Group's webcast to discuss financial results for the third quarter 2018. (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 of the SEC for disclosure of factors that may impact subjects discussed in this afternoon's webcast. The company will be discussing one or more non-GAAP financial measures. Please look at the earnings release and on Huron's website for all of the disclosures required by the SEC, including reconciliation to the most comparable GAAP numbers.

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

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

Good afternoon, and welcome to Huron Consulting Group's Third Quarter 2018's Earnings Call. With me today is John Kelly, our Chief Financial Officer; and Mark Hussey, our Chief Operating Officer.

Revenues grew 13% over the prior year quarter, driven by organic growth in each of our 3 operating segments. Our third quarter results reflect the continued execution of our strategy, and we remain encouraged about our prospects for growth during the remainder of 2018.

I will now provide a brief overview of the performance for each segment and then, John will add color to the financials.

Let me begin with Healthcare. During the third quarter, Healthcare segment revenues increased nearly 14% organically compared to the prior year quarter. The quarter-over-quarter increase in revenues was primarily attributable to our performance improvement in technology services solutions. Our health care business continues to focus on providing our clients with leading offerings in performance improvement, leadership excellence and technology services that enhance the ability of providers to compete in the rapidly evolving health care market.

We continue to grow our client base, reflecting our strong track record of winning assignments, particularly in large hospital systems and economic medical centers, where the size and degree of complexity of these engagements are an excellent fit for our competencies.

We recently hosted a summit for approximately 25 CEOs of the nation's top health systems and hospitals that reaffirmed our belief that the health care market will continue to seek our transformational services as it evolves at a rapid pace. Our primary offerings provide innovative approaches to competitive positioning, improvement in margins and quality of care as well as increasing consumer engagement.

This is the core of what our health care business does today, and as we execute on our health care strategy, we will continue to develop new and creative offerings that we believe will lead to ongoing demand for our services in this dynamic market.

Turning to the business advisory segment. Revenues grew 3% organically over Q3 2017, primarily driven by the Innosight and Enterprise Solutions and Analytics or ES&A businesses. The ES&A business grew revenues organically in the mid-single digit range over the prior year quarter, primarily driven by our Enterprise Performance Management and ERP solutions. We continue to broaden our competencies in this practice, including expanding our analytics capabilities to help our clients use data to make better, more informed decisions to further their competitive advantage.

The ES&A business continues to expand its commercial client base and we remain pleased with the success, as it competes for transformational assignments at Fortune 500 and middle-market companies. The legacy business advisory practice revenue declined in the low-double-digit range quarter-over-quarter, primarily attributable to a tough comparison due to the timing of contingent fees recognized in Q3 2017. The legacy business advisory practices continue to play an important advisory role among many middle-market clients. Year-to-date, the legacy business advisory practice has grown at a mid-single-digit pace over the same period in 2017.

The Innosight business grew revenues organically in the high-teen range over the first 9 months of 2018. During the third quarter, Innosight continued to be successful in serving commercial clients in a variety of industries and won some notable engagements with large health systems and academic medical centers. Innosight has also been successful in working with our health care and education experts to grow our presence, expand our relationships and deliver additional value in those markets. We're pleased with the collaboration to date, and we believe it will be a platform for growth in the future years.

Finally, the life sciences business declined quarter-over-quarter. There continues to be uncertainty in the life sciences industry and our business is positioned to help clients respond effectively to those evolutions.

In the first 9 months of 2018, the business advisory segment generated 29% of its total revenues in the health care and education industries. On a run-rate basis, year-to-date 2018 revenues generated in the business advisory segment in the health care and education industries is up 20% over the same period in 2017.

Turning now to Education. Education segment revenues in the third quarter of 2018 grew nearly 23% organically over the same period in 2017. This business continued to see solid demand across all the service lines, driving record revenues for the segment. As I mentioned on prior calls, the higher education market is going through a dramatic change that I believe is even more significant than the health care market. We remain well positioned as a trusted partner to our higher education clients as the industry continues to evolve and as we look to address their most challenging strategic, financial, operational and technology issues.

Given our competitive position in the market landscape, we believe this business will continue to perform well for the foreseeable future.

Let me now turn to our 2018 guidance. As our press release indicates, we are narrowing and increasing our annual revenue guidance to $775 million to $790 million. We are increasing our adjusted EBITDA guidance to $88 million to $94 million and narrowing our adjusted non-GAAP earnings per share guidance of $2.02 to $2.18.

We raised our revenue guidance to reflect the current and anticipated demand for our services across all segments for the remainder of the year. We raised our adjusted EBITDA guidance slightly above our previously stated range while maintaining a wider EBITDA and EPS range to reflect uncertainty over the timing of certain contingent fees in the business advisory segment. We believe we've built a solid foundation 2018 from which we can grow both revenue, margins and earnings.

Excluding the impact of bonus adjustments that benefited the P&L in 2017, we're already seeing the impact of our efforts in expanding margins in 2018. We have and will continue to invest in areas that we believe will drive organic revenue growth across all 3 segments. We're also identifying further opportunities to increase our productivity and drive efficiency across client-facing and corporate activities. We are in the midst of our 2019 planning process and are focused on prioritizing our spending and investments consistent with our strategy. We're committed to achieving our long-term financial objectives of sustainable organic growth and improved profitability and believe in the positioning we have done over the past 2 years to enable us to make meaningful progress in 2019.

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

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

Thank you, Jim, and good afternoon, everyone. Before we begin, please note that I will be discussing non-GAAP financial measures, such as EBITDA, adjusted EBITDA, adjusted net income, adjusted EPS, and free cash flow.

Our press release, 10-Q and Investor Relations page on the Huron website have reconciliations of these non-GAAP measures to the most comparable GAAP measures along with the discussion of why management uses these non-GAAP measures 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 third quarter of 2018 increased 12.5% to $198.4 million compared to $176.4 million in the same quarter of 2017. The increase in revenues in the quarter was driven by organic growth across all 3 segments.

Net income was $8.2 million or $0.37 per diluted share in the third quarter of 2018 compared to $4.1 million or $0.19 per diluted share in the same quarter last year. The increase in net income in the quarter was driven by higher revenues that outpaced expenses. Our effective income tax rate in the third quarter of 2018 was 15% compared to negative 92.4% a year ago. Our effective tax rate for Q3 of this year was more favorable than the statutory rate, inclusive of state income taxes, primarily due to additional deductions we are able to take related to our 2017 federal and foreign tax returns.

Adjusted EBITDA was $24.7 million in Q3 2018 or 12.5% of revenues compared to $21.5 million in Q3 2017 or 12.2% of revenues. Adjusted non-GAAP net income was $14.1 million or $0.64 per diluted share in the third quarter of 2018 compared to $9.3 million or $0.43 per diluted share in the same period of 2017.

Now I'll make a few comments about the performance of each of our operating segments. The Healthcare segment generated 46% of total company revenues during the third quarter of 2018. The segment posted revenues of $90.4 million for the third quarter of 2018, up $10.8 million or 13.6% from the third quarter of 2017. This increase in revenues is primarily attributable to the increase in demand for our performance improvement and technology services solutions, partially offset by lower revenues in our Studer Group solution. Performance-based fees in Q3 2018 were $8.4 million compared to $5.3 million in the same quarter last year. Our full year expectation for the range of performance-based fees is now $35 million to $40 million.

Operating income margin for Healthcare was 29.5% for the Q3 2018 compared to 32.4% for the same quarter in 2017.

The year-over-year decrease in operating margin was primarily attributable to an increase in bonus expense. We expect full year operating income margin for the Healthcare segment to be approximately 30%.

The Business Advisory segment generated 29% of total company revenues in the third quarter. Segment posted revenues of $57.2 million for the third quarter of 2018, an increase of 3.3% compared to $55.4 million in Q3 2017. The operating income margin for business advisory was 20.7% for Q3 2018 compared to 23.2% for the same quarter in 2017. The decrease in operating income margin in the quarter is primarily attributable to an increase in bonus expense for our revenue-generating professionals. The 2017 margin reflects the impact of $1.7 million performance-based fees in that period compared with no such fees in 2018.

We expect full year operating income margin for the Business Advisory segment to be in the 21% to 23% range, though the final operating margin percentage will depend on the timing of certain success fees from our broker-dealer. The Education segment generated 25% of total company revenues during the third quarter of 2018. The segment posted record quarterly revenues of $50.9 million in Q3 2018, an increase of 22.8% compared to revenues for Q3 2017 of $41.4 million. The operating income margin for the Education segment was 29.5% for Q3 2018 compared to 18.7% for the same quarter in 2017. The increase in operating income margin in the quarter was primarily attributable to revenue growth that outpaced expenses.

We expect full year education segment operating income margin to be in the 24% to 26% range. Other corporate expenses not allocated at the segment level were $30.5 million in Q3 2018 compared with $29.4 million in Q3 2017.

Now turning to the balance sheet and cash flows. DSO came in at 64 days for the third quarter of 2018 consistent with the second quarter of 2018. Total debt includes the $250 million face value of convertible notes, $71.5 million in senior bank debt and a $5 million promissory note for total debt of $326.5 million. We finished the quarter with cash of $9 million for net debt of $317.5 million, a decrease of approximately $38 million compared to net debt of $355.5 million as of the second quarter's. We ended Q3 2018 with a leverage ratio, as defined in our recently amended and extended senior secured credit agreement, of approximately 3.0x adjusted EBITDA. We expect our net debt to be below $280 million by the end of the year.

Cash provided by operating activities for the quarter was $42 million. We continue to expect the cash from operating activities for the year of $95 million to $105 million. With capital expenditures of roughly $15 million, we continue to expect free cash flow for the year of approximately $80 million to $90 million, net of cash taxes, interest and excluding noncash stock compensation. We now expect our full year GAAP effective tax rate to be 30% to 32%, reflecting a headwind of share-based awards vesting during 2018 at a lower price than the original grant date price.

Note that the positive impact of a tax benefit recorded during the quarter related to the 2017 Tax Cuts and Jobs Act has been adjusted out of our adjusted non-GAAP earnings per share.

Finally, as Jim noted, we are raising our full year 2018 revenue guidance to $775 million to $790 million. We are lowering our GAAP net income range to $18 million to $22 million and GAAP earnings per share range to $0.82 to $0.98 per share, primarily reflecting additional expenses related to the fair value of our contingent consideration liabilities and restructuring charges.

On a non-GAAP basis, we are increasing our adjusted EBITDA guidance to $88 million to $94 million and narrowing our non-GAAP earnings per share guidance to $2.02 to $2.18 per share.

As Jim mentioned, our wider-than-typical adjusted EBITDA and adjusted non-GAAP EPS guidance ranges reflect uncertainty over the timing of certain contingent fees in the Business Advisory segment.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Tim McHugh with the William Blair & Company.

Timothy John McHugh ***William Blair & Company L.L.C., Research Division - Partner & Global Services Analyst***

Just wanted to follow up on margins a bit. I guess, maybe thematically throughout the year, we've kind of -- seen revenue trends come in better than you've anticipated or at least we anticipated, including in this quarter. But the flow-through to profits has been minimal just as expenses have kind of come in higher than we thought throughout the year, I guess. Can you talk about what -- I understand that year-over-year comparison in terms of bonuses and lower contingent fees, but I guess, just what's -- how has your expense outlook changed as the year gone? What's been surprising? And in the vein of that, I guess, trying to understand the confidence that margins will improve from here as we look forward to '19?

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

Jim, this is John. And we remain cautious on the EBITDA and EPS ranges primarily due to that uncertainty at several performance-based fee amounts in the BA segment in the fourth quarter. So our major guidance contemplated that we recognize revenue on some of these opportunities along with corresponding upside. And while these amounts will have a relatively smaller impact on the top line, on revenues, I think, kind of low to mid-single-digit million impact in aggregate, then they have a more significant impact on our final EBITDA and EPS numbers. So all else being equal, you probably would have expected to see a bigger flow-through of the revenue to EBITDA and EPS, but we're just being cautious because we know we have those fees where the timing is uncertain. I think your broader question about 2009, we're really pleased with organic revenue growth and continue to believe that this growth, fueled by some of the investments that we've been making throughout the year, is going to lead to expanding margins in 2019.

If I was going to point at a few factors related to that we expect better SG&A leverage as our revenues continue to grow next year versus our expense base. Across all of our businesses, right now, we're pursuing opportunity to increase the efficiencies of operations and, quite frankly, how we deliver to clients. We expect to see increasing returns on the investments that we made this year as well as some of the investments we made in prior years. And as Jim mentioned, as we continue the planning process for 2019, we're focused on prioritizing our spending to ensure that we're really investing in the areas that drive our strategy and, ultimately, are going to improve those margins. And maybe the final thing that I provide is within the Healthcare segment, which is obviously our biggest segment, we've seen a gradual improvement in pricing as the years progressed.

Timothy John McHugh ***William Blair & Company L.L.C., Research Division - Partner & Global Services Analyst***

Okay, that's helpful. I guess -- just a follow-up, I guess. One, can you give us some more color on Studer? And two, can you talk about large projects? And how -- I guess, is any of their improvement in Education or Healthcare, I guess, related to any large practice so that we should be cognizant of in terms of a grow-over impact? Or is it more -- broader like you've been seeing earlier in the year?

C. Mark Hussey ***Huron Consulting Group Inc. - EVP & COO***

Jim, it's Mark. How are you? It's good to be with you all today. Listen, I think -- maybe start with Studer Group. We've talked about the cancellations in the first half of '17. And so really that's been the primary source of the headwind. If we look at how it's doing now we look at really cancellation trends as well as new business sales coming into next year, it really had been in a much, much stronger position. And we think that Studer Group in general just continues to be highly relevant in the market because the need for just leadership, change management, and hardwiring some of the service and quality tools and tactics. So I think, I feel actually relatively positive about Studer's outlook and I think that we continue to evolve the business model that they are pursuing even outside of some of the traditional strength in the key market where they've historically been. So I'd say, Studer Group is working through the changes to continue to reposition itself. But I think we've seen a lot of progress this year already. And then I'll talk maybe a bit about the Healthcare side, and let Jim comment on the Education side. I would characterize our pipeline really in much the same way. We're seeing a really nice mix of engagement sizes across service lines. So there is no single engagement that's really driving the results and presenting any kind of risk in '19 runoff at this point. So I feel good about the healthiness of the pipeline and just the mix of services and engagement sizes.

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

Yes, and Tim, it's Jim. I would add on to what Mark is saying. I think unlike in prior years when we had certain small number of larger clients that tend to dominate. I think what we really achieved, it's just not in Healthcare, but it's in Education. It's actually ES&A and even Innosight and that is, we've got projects that over a period of -- a longer period of time are going to be sizable in nature, but are really going to be kind of providing a continued backlog for us as we work through a lot of these complex issues. So instead of it being incredibly intense over a short period of time, I think, we're doing exactly what we want to do is to be building up these longer-term relationships with these clients as they go through a very transformative period, and that is exactly the kind of relationship we want to have, and I think, that's exactly what's coming through. So I don't think that there's any major project that we have that were -- to go away would be a significant headwind or a clear significant headwind next year. We have a much more balanced portfolio than we've ever had across the company. And I feel very good about that, so that's the kind of -- we talked about our business becoming a little bit lower beta and I think that's exactly what we're seeing.

Timothy John McHugh ***William Blair & Company L.L.C., Research Division - Partner & Global Services Analyst***

Okay, great. And then just one follow-up on the Studer piece, Mark. I guess the lost client in the first half of '17, I guess, it's a part of why I asked. I thought you would have been passed the comp from that at this point, I guess, and when does that stop being a drag?

C. Mark Hussey ***Huron Consulting Group Inc. - EVP & COO***

Yes. That really has just now runoff, Tim. We've had -- when you have those multiyear contracts and you have some of the cancellation periods, they just -- they trickled into beginning of this quarter. So I think we're actually in a clean state coming into 2019.

Timothy John McHugh ***William Blair & Company L.L.C., Research Division - Partner & Global Services Analyst***

Clean state from a growth perspective? Or a clean state -- and so they were still clearly left?

C. Mark Hussey ***Huron Consulting Group Inc. - EVP & COO***

It impacted cancellations.

Operator

And our next question comes from Tobey Sommer with SunTrust.

Tobey O'Brien Sommer ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

I wonder, if you could start out by discussing bill rates and what the implications are kind of on an apples-to-apples underlying bill rate growth as well as how the assessments are influencing the bill rates within the Healthcare segment?

C. Mark Hussey ***Huron Consulting Group Inc. - EVP & COO***

Sure thing, Tobey. The bill rates definitely have had some influence from assessments this year because I mean, as you know, when we often start work, we will be doing assessment work and often there is -- during that time we tend to have a breakeven, sometimes there is a net investment depending on how much of an opportunity that we think there exists. I would say, the assessment activity has been an area that we have not commented on all that much, but it's continued to be healthy over the last year or so, and I would say in kind of the normal cadence of our pipeline.

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

And Tobey, I would just add, I'll supplement by saying that health care business, there has been gradual improvement in the bill rates as the year is going on, which is what we expected to see from a health care perspective. And then from an education bill rate perspective, we had a little bit of a blip during the second quarter. We talked last call about a particular large job where we had made an investment and that impacted our bill rate for the second quarter. And with that, in the rearview mirror, in the second quarter, we saw the bill rates kind of rebound to what we would expect for the year.

Tobey O'Brien Sommer ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

Okay. That segues nicely to my next question. With respect to the margins in the education segment and as they might be influenced by the bill rates, is this higher level of profitability sustainable? Or is this a little bit of the catch up from that investment period and maybe the profit margin needs to settle down a little bit towards historic norms?

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

I'd probably look for it to settle down, Tobey. We guided to the year. We continue to guide throughout the year in the 24% to 26% range. We're below that during the first couple of quarters. We ended up, of course, being higher than at this quarter. And we think, on average, we are going to land still in that mid-20% range. Now keep in mind, with this business, it's been all organic growth over the past several years. And then, part of that growth has come from some of the OpEx investments we've made particularly in the cloud, ERP area. And so that's a -- we're going to continue to make investments in the business. We're comfortable with that mid-20% margin range. But quarter-to-quarter, it can just be lumpy depending on what projects are going on. Sometimes there might be paperwork issues with getting a contract signed or an amendment signed that can impact it, but we tend to look at it on a full year basis.

Tobey O'Brien Sommer ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

In the Education segment, reading more about net tuition kind of growth headwinds and enrollment issues broadly. Are your -- is your average project size increasing? Or perhaps if you've not seen it now, do you expect it to overtime in that segment? And what does that mean for your business?

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

I suspect that the average -- Tobey, this is Jim. I think -- I suspect that the average size has increased. But I think, we're just seeing a transition in the overall business from what used to be like much more narrow and discrete projects that might have been around cost containment to much broader kind of institutional issues, sometimes strategic issues. And just the whole nature of higher education, as I indicated in my part of the script, is really going through a big change. And I think these issues are -- we're less -- we're not doing as many kind of just individual projects as much as we are really kind of helping them through a pretty tough adjustment period. And I think that's going to go on for quite some time. So we are -- as we indicated that the strength of the practice is really coming -- or has been from probably 2 or 3 years now. It's been coming pretty evenly across-the-board in terms of our technology, our search, our strategy and our student life cycle businesses and I think that's going to continue. It's just we're working in -- at a very difficult environment for our clients. And I think the average size is going to continue to increase because, I think, the complexity of the issues are increasing as well, as is the competition for our clients. And I mean that from their perspective not from our market perspective. So put it all together, I suspect that we've seen an increase in size of projects. And I think, it will probably increase. All that put aside though, we've also continued to broaden the number of clients that we're serving, and sometimes beyond just the ones that are in the top 150 in the research rankings. And that too, I think, is a positive indicator for our future growth.

Tobey O'Brien Sommer ***SunTrust Robinson Humphrey, Inc., Research Division - MD***

From a balance sheet and capital perspective, should we still be expecting debt pay down, as we turn into -- flip the calendar into 2019? Or have you made enough progress growing the business and delevering such that you have different thoughts at this point?

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

We're still focused on paying down the debt, Tobey. The reality of how we'll work over the next couple of quarters is, we have a interest rate swap on $50 million of our revolver. So we're not going to break that swap, so we'll probably pay down our debt to that point. Right now, as of the end of the third quarter, we're at $71.5 million on revolver, so we'll probably pay that down to $50 million. We'll probably build some cash then as we had into the end of year and through the early part of Q1 and then we've got the bonus payouts in March. So we'll use the cash on hand and we will go back to borrowing again on those bonuses. And really from there, our expectation will be that there will be a continued focus on debt pay down. I think what we talked about before is getting more toward the low end of the 2s by the end of the year and that still remains our focus.

Operator

And our next question comes from Kevin Steinke with Barrington Research.

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

Just wanted to follow up on the margin discussion a little bit more. In the Business Advisory segment, you're guiding to a 21% to 23% operating margin. Previously, you said 22% to 23%. I know that's not a large change, but is that just reflect, like you said, the uncertainty of the timing of that contingent fee?

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

It really does, Kevin. That was the primary factor for that update to expectations for the year.

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

All right. And then health care too, again, I don't know, if I'm reading it too much into it, but you'd previously said low-30s margin and now, you said specifically 30. So I'm -- is that a meaningful change? Or -- if so what would be driving that?

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

No. I think from a health care perspective, we did start the year sort of in the low-30 range. At this point, our closest to the pin based on how we're looking at the numbers is closer to 30%. I think that, that's really just a function of how the year has progressed. We talked earlier in the second quarter about some of the investments we made in the sales organizations for that business, that has an impact on it. The technology business has been growing at a very nice pace during the year. The technology business tends to blend in at slightly a lighter margin, so I think those are the primary factors, Kevin.

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

Okay, okay. And so that factors into what you said in terms of the Healthcare margin and the Education margin -- I'm sorry, Business Advisory margin, slight changes there, maybe, makes you a little more cautious on the EPS guidance despite the revenue raise?

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

Yes, I think that's fair, Kevin.

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

Okay. So -- but overall, I mean, the investments you talked about last quarter about a 50 basis point headwind, is that kind of roughly still what you're thinking for the year?

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

Yes, yes. I mean, we're -- as the year progresses, there's always going to be areas where as we see opportunities, we'll continue to make decisions about whether to invest in certain areas. Quite frankly, there might be times and there are times where there is investment we want to make, but we decide to pull back if we think that there is a different opportunity. So it's fluid, but the items that we talked about in the second quarter and really the impact, at that point, I would say that's been stable. There has been no big-ticket changes in the levels of investment that we're planning after this year.

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

Okay. So talking -- getting back to the Education segment. It sounds like really broad-based growth there starting to get more benefit from the cloud investments you've made. Just wondering, how often, perhaps some of your technology engagements within education are, say a follow-up to some of your strategic work with educational institutions? Or how often you can connect that with other work you're doing to maybe extend the length of an overall engagement with the client? And in essence, doing implementation work through technology to follow up on the strategic work you've done.

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

Kevin, this is Jim. It happens almost all the time. I think we -- I think, if you look at the larger projects that we have, we have multiple service lines in higher ed across almost all of them. And some of these projects go on. They're -- the system's projects aren't technology projects, they involve process redesign. They sometimes -- they just involve kind of really rethinking of the way that our clients are thinking about the way they conduct their business. And so these projects tend to go on for long periods of time. It's not like we've got big, big books of revenue. They're just a very long-standing, steady clients and they -- I think, we are clearly delivering value, but we're delivering value across the technology front, across the strategy front, across the research front. And so that's exactly the profile of the client that we're looking for. And I think we've got a number of them, but I would say more often than not, we have multiple service lines within higher education at most of our university clients. And I think increasingly, we're seeing as we've indicated on a number of calls, we have our health care practice involved in some of them. We have our ES&A practice involved. We have our Innosight practice involved. So I think the whole company is becoming a lot more collaborative around a lot of our clients in getting much more tuned and engaged with selling multiple services within the same client. And I think so far, that has been very successful for us and I think is a big differentiator. We've been calling out for at least 2 years now the percentage of ES&A revenues, for example, that are done in health care and education industries and that's a notable piece of the work that we're doing. And I think reflects the fact that we are working -- we are going to market together and bringing a pretty varied set of competencies to our clients. So it's been very successful for us, and I think you all can see that -- you'll see that continue as time goes on.

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

Okay, great. On the Innosight strategy and innovation practice, I believe, you said high-teens growth through the first 9 months of the year. Does that -- As I recall, does that imply that growth has kind of picked up throughout the year because that's a pretty nice growth rate? I seem to recall that it started out a little slowly, but just maybe how growth has progressed throughout the year and then the quarter specifically?

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

Yes. Kevin, that's a good question. The growth has picked up as the year has progressed. So -- and that's -- probably that trend is going to continue actually into the fourth quarter as well. If you recall, during the fourth quarter call, we discussed how it had a slower quarter in the fourth quarter of last year. So based on the trend lines that we have so far this year and our expectations for the fourth quarter, we think it's a business that's been increasing in momentum as the year has gone on.

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

I think, inherently, that business is going to be a little bit lumpier, when you're doing the kind of the strategic projects. If they do, you're going to find lumpiness. I think that exist, but does -- as John indicated, I think, we've had a progressive increase over the first 9 month of the year, and I think that's going to continue in the fourth, but there's inevitably going to be a little bit of lumpiness in that business.

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

Right. Relative to their size, they tend to have a number of large projects relative to their size going on, so you can have starts and stops and things like that, that can make it lumpy, as Jim described.

Operator

And at this time, I see no further questions in queue. I would now like to turn the call back over Mr. Roth for closing remarks.

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

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

Operator

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