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HURN.OQ - Q2 2020 Huron Consulting Group Inc Earnings Call

EVENT DATE/TIME: JULY 30, 2020 / 9:00PM GMT

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Huron Consulting Group's webcast to discuss financial results for the second quarter 2020. (Operator Instructions) As a reminder, this conference call is being recorded.

Before we begin, I would like to point all of you to the disclosure at the end of the company's news release for information about any forward-looking statements that may be made or discussed on this call. The news release is posted on Huron's website. Please review that information along with the filings with the SEC for a disclosure of factors that may impact subjects discussed in this afternoon's webcast.

The company will be discussing one or more non-GAAP financial measures. Please look at the earnings release and on Huron's website for all of the disclosures required by the SEC, including reconciliation to the most comparable GAAP numbers.

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

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

Good afternoon, and welcome to Huron Consulting Group's Second Quarter 2020 Earnings Call. With me today is John Kelly, our Chief Financial Officer; and Mark Hussey, our President and Chief Operating Officer.

Our second quarter results were better than we anticipated, with revenue declining 1% over the prior year quarter. This decline was driven by weakness in the Healthcare business that was partially offset by solid growth in the Business Advisory and Education segments. While the second quarter was better than our initial estimates, we remain cautious about the second half of the year given the economic uncertainties facing our clients, particularly in Healthcare and Education. I will now share additional insight into our second quarter performance and the demand drivers for each of our businesses and then provide some color on our expectations for the remainder of 2020.

During the second quarter, Healthcare segment revenues declined 16% compared to the prior year quarter. As you've read, most hospitals and health systems were severely impacted in March and April, with virtually no elective or nonurgent surgeries being performed when the crisis was at its worse. Many of our clients began to see patient volumes return in May and June, although most have not yet seen a return to pre-COVID volumes.

With some stability in their business, our health care clients began to reengage our team in the latter part of the second quarter to support them on more immediate priorities as they work through the financial and operational challenges that were exacerbated by the current environment. Indicative of the market improvement, utilization of the Healthcare business started in the mid-60s earlier in the quarter and rose to the low 70s by the end of the quarter, although still well below historical levels. While the slowdown during the quarter impacted all aspects of our health care business, there were several areas where we were able to enhance revenue because of the ongoing crisis.

The most notable was our work with Medically Home, in which we made a strategic investment last year. For example, we partnered with Medically Home and one of our California-based health system clients to establish a 250-bed virtual hospital in the home capability in just over 8 weeks. We are underway with similar work with additional health systems across the country with the pipeline continuing to develop as hospitals look for better and less expensive ways to serve acute patients in the COVID-19 environment as well as evolve the way care is delivered in the future.

We have also introduced several other new services in response to the pandemic, including COVID-19 testing and contact tracings advisory services for several large municipalities and other organizations, virtual care, including telehealth design, implementation and optimization in response to the surge in remote patient encounters, and recovery services that help hospitals to ramp up patient volumes, safely reopen ambulatory clinics and design operating room procedures focused on new COVID-19 protocols.

As the volatility of the pandemic continues, we will continue to have limited visibility into our Healthcare business as we move into the second half of 2020. We were encouraged by the gradual increase in utilization as the second quarter progressed, but we remain cautious about estimating when growth and earnings will approach historical norms.

For our Healthcare clients, the current environment highlights the need to evolve core aspects of their business model, including care delivery, supply chain, technology, infrastructure and the related economics resulting from these collective changes. With our broad set of offerings and nimble approach to the market, we believe we are well positioned to help our clients address their immediate needs while working with them to create a pathway for a successful and sustainable future.

Our Business Advisory segment achieved record revenues in the second quarter. Revenues grew 13% over the second quarter of 2019, primarily driven by our technology and distressed advisory offerings. Our technology offerings in the ES&A business continue to see solid demand as the COVID-19 crisis has highlighted the importance of digital transformation to modernize business operations and engage with customers in addressing the new economic realities. We are encouraged by the strength of our digital technology and analytics services in the market, and we believe that the ES&A business will be one of the larger drivers of growth for Huron in the future.

Our legacy business advisory practice has been and will continue to be the beneficiary of the financial distress facing many industries, driving solid demand for our restructuring and turnaround services. We believe current market conditions will drive continued demand for these offerings for the foreseeable future.

We are also seeing gradual improvement in the pipeline for our strategy-related offerings in the life sciences and Innosight businesses. As the global economy further stabilizes, we believe demand for our strategy services will increase following the significant disruption taking place in the global economy.

Our Education segment revenues increased 10% over the second quarter of 2019, primarily driven by growth in our student, technology and research offerings. The segment's solid second quarter performance was primarily driven by the strength of existing backlog as we entered the COVID-19 crisis.

Similar to Healthcare, business development activities and pipeline conversion for the Education business were significantly impacted in the quarter, driven by issues related to the pandemic. Those limitations have hindered conversion of our pipeline as we enter the second half of the year.

Unlike health care, many higher education institutions have not yet begun their path to recovery as they currently face tremendous uncertainty relating to bringing students, faculty and staff back to campus in the fall. There is significant variability among colleges and universities in proposed strategies for reopening campuses and providing instruction for the fall term. Because of this uncertainty and well-publicized recent volatility, many of our clients are focused on the immediacy of starting the fall semester. That distraction, like what we witnessed in health care in March and April, limits our visibility into the second half of the year.

To help our clients in the near term, we have developed several new services, including assisting with testing and contact tracing initiatives aimed at creating a safer environment on campus, helping identify and apply for COVID-19 stimulus and other relief funds; and identifying operational efficiencies and new budget models to better allocate scarce resources and prepare for new business model economics.

Due to the uncertainty about how the fall semester will play out across our client base, we do not expect to replicate our first half performance in higher education in the second half of the year. Like what we have experienced with our health care clients, we believe that demand will return as colleges and universities get past the immediate challenges. The business model is going to be permanently changed in higher education, and there will likely be a significant need for educational institutions to revise their operational, financial and technology strategies. We believe these challenges will drive strong long-term demand for our services.

I will now provide a few comments on our expectations for the remainder of 2020 and then let John provide greater detail when he walks through the numbers. Today, we are reestablishing full year guidance for 2020. Our revenue guidance for the year is now $820 million to $860 million. We also expect adjusted EBITDA in a range of 9% to 10% of revenues, and adjusted diluted earnings per share of $1.50 to $1.80.

Considering the challenging economic environment, Huron had a solid first half. Our Education and Business Advisory segments performed at or above our expectations that we had established prior to the start of the year. The momentum we established in 2019 carried into the beginning of 2020, and during what was hopefully the worst of the pandemic in the second quarter, our team continued to support our clients remotely, innovatively addressing their current challenges while helping them plan for the medium and longer term.

As I've mentioned throughout today's call, our guidance reflects the limited visibility we have into the second half of the year, stemming primarily from the uncertainty in the health care and education industries, and our challenges in building a strong sales and business development pipeline in these businesses due to the near-term disruption facing our clients. With that said, our technology and distressed advisory offerings continue to see solid demand as clients in the commercial markets seek our services.

Compared to recent years, we have a much more balanced portfolio as our Business Advisory segment continues to grow at a faster pace than our other businesses. We believe we have the right client relationships, nimble go-to-market capabilities and broad set of offerings across all of our segments to address our clients' evolving needs today and in the future. As of now, we believe the market will continue to evolve in the near term to support our goal to keep our team together as we meet the anticipated demand of our clients as they stabilize and progress in their recovery.

While COVID-19 and the economy take their course, we continue to believe that future opportunities for Huron will outweigh any short-term disruptions to our pipeline. We would not have been so well positioned without the hard work and dedication of the entire Huron team who have continued to demonstrate resilience and agility during a challenging time. I have often mentioned that our culture is a core competitive differentiator, and it is time -- during times like the last several months where our culture truly shines. As we move into the second half of the year, we are focused on advancing our long-term strategy, delivering the same high-quality services to our clients and positioning this company to achieve our financial objectives of sustainable organic revenue growth and margin expansion over time.

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, Principal Accounting Officer, CFO & Treasurer*

Thank you, Jim, and good afternoon, everyone. Before I begin, please note that I will be discussing non-GAAP financial measures, such as EBITDA, adjusted EBITDA, adjusted net income, adjusted EPS and free cash flow. Our press release, 10-Q and Investor Relations page on the Huron website 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 and why management believes they provide useful information to investors regarding our financial condition and operating results. Also, my comments today are all on a continuing operations basis.

Now let me walk you through some of the key financial results for the quarter. Revenues for the second quarter of 2020 were $217.9 million, down 1.3% from $220.8 million in the same quarter of 2019. The decline in revenues in the quarter was driven by the Healthcare segment, partially offset by solid growth in the Business Advisory and Education segments. Net income was $13.6 million or $0.61 per diluted share in the second quarter of 2020 compared to $10.6 million or $0.47 per diluted share in the same quarter in the prior year. Adjusted non-GAAP net income was $14.9 million or $0.68 per diluted share in the second quarter of 2020 compared to $17.1 million or $0.76 per diluted share in the same period of 2019.

Our effective tax rate in the second quarter of 2020 was 20.1% compared to 24.8% a year ago. Our effective tax rate for Q2 of 2020 was more favorable than the statutory rate, inclusive of state income taxes, primarily due to the current year-to-date pretax losses and the impact during the quarter of certain nondeductible business expenses, including the nondeductible portion of the first quarter goodwill impairment charges based on the allocation of these expenses to the quarter in accordance with GAAP. The effective tax rate also reflected the positive impact of certain federal tax credits.

Adjusted EBITDA was $27.5 million in Q2 2020 or 12.6% of revenues compared to $29.2 million in Q2 2019 or 13.2% of revenues.

Now I'll make a few comments about the performance of each of our operating segments. The Healthcare segment generated 39% of total company revenues during the second quarter of 2020. This segment posted revenues of $85.4 million for the second quarter of 2020 down $16.6 million or 16.3% from the second quarter of 2019. This decrease in revenue reflects disruption to our new business pipeline and slower conversion of soft backlog during the quarter related to the ongoing COVID-19 pandemic.

Operating income margin for Healthcare was 24.8% for Q2 2020 compared to 32.7% for the same quarter in 2019. The quarter-over-quarter decline in margin was primarily due to the reduction in Healthcare segment revenues.

The Business Advisory segment generated 32% of total company revenues during the second quarter of 2020. The segment posted record quarterly revenues of $70.5 million in Q2 2020, up $8.2 million or 13.2% from the second quarter of 2019. The increase in revenue during the first quarter was primarily attributable to our technology and distressed advisory offerings.

The operating income margin for the Business Advisory segment was 23.7% for Q2 2020 compared to 18.4% for the same quarter in 2019. The quarter-over-quarter increase in margin was primarily due to revenue growth that outpaced expenses.

The Education segment generated 29% of total company revenues during the second quarter of 2020. Segment posted revenues of $62 million in Q2 2020, up $5.5 million or 9.7% from the second quarter of 2019. The increase in revenue was driven by growth in our student, technology and research offerings.

The operating income margin for Education was 26% for Q2 2020 compared to 28.7% for the same quarter in 2019. The quarter-over-quarter decline in margin was primarily due to increases in salaries, bonuses and related expenses for our revenue-generating professionals and contractor expense as a percentage of revenues, partially offset by a decrease in travel expenses.

Other corporate expenses not allocated at the segment level were $31.6 million in Q2 2020 compared with $36.5 million in Q2 2019. The reduction in other corporate expenses was driven by reduced outside professional fees, reflecting increased fees in the prior year quarter related to diligence on an acquisition that did not ultimately consummate, reduced facilities expenses, reduced salaries, bonus and stock compensation expenses for our support personnel and general corporate savings across multiple expense categories. These savings were partially offset by a $3.1 million increase in the liability for our deferred compensation plan, which is offset in other income by the gain related to the increase in market value of assets used to fund that plan.

Now turning to the balance sheet and cash flows. DSO came in at 68 days for the second quarter of 2020 compared to 62 days for the first quarter of 2020 and 67 days for the second quarter of 2019. Total debt includes the $328 million in senior bank debt and a $4 million promissory note for total debt of $332 million. We finished the quarter with cash of $83 million for net debt of $249 million. This was a $52 million decrease compared to Q1 2020. Our leverage ratio, as defined in our senior bank agreement, was approximately 2.6x trailing 12-month adjusted EBITDA at the end of Q2 2020 compared to 3.5x trailing 12-month adjusted EBITDA as of March 31, 2020. The decrease in our leverage ratio was driven by the reduction in borrowings in the second quarter as we repaid $120 million on our revolving line of credit.

Our net leverage ratio was 1.9x trailing 12 months adjusted EBITDA as of June 30, 2020, when the bank definition calculation is adjusted for cash on hand. This compares to 2.6x trailing 12-month adjusted EBITDA as of June 30, 2019, when calculating in the same manner.

Cash flow generated from operations in the second quarter of 2020 was $58 million, and we used $6 million of our cash to invest in capital expenditures, inclusive of internally developed software costs, resulting in free cash flow of $52 million. Given the ongoing COVID-19 pandemic, we will continue to proactively manage our cash position to support our operations. However, through July, we have not seen any material degradation in our cash collections, and cash on hand has continued to increase.

We continue to believe that our internally generated liquidity, together with our available cash and borrowing capacity, will be adequate to support our immediate financing needs and investments in our long-term growth strategy, including opportunistic tuck-in M&A that may arise.

Finally, let me turn to our expectations and guidance for 2020. For the full year 2020, we now anticipate revenues before reimbursable expenses in a range of $820 million to $860 million, adjusted EBITDA in a range of 9% to 10% of revenues and adjusted EPS in a range of $1.50 and to $1.80. We expect cash flows from operations to be in the range of $60 million to $70 million. Capital expenditures are expected to be approximately $16 million to $20 million, and free cash flows are expected to be in a range of $40 million to $50 million net of cash taxes and interest and excluding noncash stock compensation.

We continue to expect our weighted average basic share count for 2020 to be 22.5 million shares. In addition, we continue to assume an effective tax rate on a non-GAAP basis, excluding the tax impact of our Q1 goodwill impairment charges in the range of 28% to 30%, which comprises the federal tax rate of 21%, a blended state tax rate of 5% to 6% and incremental tax expense related to certain nondeductible expense items. Let me add some color to our guidance starting with revenue.

The midpoint of the revenue range reflects a 4% decline in revenue compared to 2019 revenue of $877 million. Embedded in the guidance range, our expected performance-based fees in the Healthcare segment in a range of $40 million to $50 million.

Turning to the segments. With regard to the Healthcare segment, we expect a low double-digit decline in revenue for 2020, and we expect operating margins will be approximately 25% to 27%, reflecting the impacts of the COVID-19 pandemic. With the surging COVID-19 cases in the U.S. and the pressure that places on the health care industry, uncertainty remains related to demand for our traditional health care offerings in the short term. The financial and operating pressures created by the pandemic only exasperate the underlying challenges faced by hospitals and health systems, which we believe will bode well for our services over the medium and longer terms.

In the Business Advisory segment, we expect to see mid-single-digit revenue growth for 2020, and we expect our operating margins in this segment to be in the high teens. We expect demand for our technology and restructuring offerings will continue to increase as the year progresses. As clients address business model challenges. This increased demand will likely be partially offset by decreased demand for our strategic offerings in the short term, but we remain optimistic about the medium- and longer-term drivers for these offerings.

In the Education segment, we expect relatively flat revenues in 2020 compared to 2019, and we expect operating margins will be in the low 20% range. As Jim mentioned, our higher education clients have and continue to face immense operational and financial pressure as they prepare for the fall term. Our clients' current focus is on identifying the right path forward for their institutions to keep students, faculty and staff safe in the midst of the pandemic. While we are helping support them in these efforts, we believe current uncertainty will have an impact on segment revenues in the second half of the year.

Turning to the total company. Huron's adjusted EBITDA margin is expected to be in the range of 9% to 10% of revenues, a decline of 250 basis points at the midpoint of guidance compared to 2019. This margin decline reflects the impact of revenues stemming from the ongoing pandemic and our previously stated intent to keep the Huron team together so that we are positioned to deliver on the strong demand we expect as our clients stabilize and begin to address the mounting pressures they face.

With the recent resurgences of COVID-19 across the United States and the well-publicized issues facing our health care and education clients, our guidance is cautious and reflects the uncertainty of demand in the second half of 2020. We have reduced visibility into the back half of the year as our health care and education clients respond to the day-to-day challenges they face in combating or managing through the pandemic. Our internal data indicates that our client-facing consultants have, on average, utilized less vacation time during the first half of 2020 than would normally be anticipated, reflecting our team's focus on helping our clients transition through the pandemic and worldwide travel restrictions. Our guidance anticipates a higher usage of PTO in the back half of the year.

Now let me share a few final thoughts before we open the call to questions. Given the continued uncertainty in the market, we are pleased that our second quarter results were better than we had initially anticipated. Our team rose to the challenge of selling and delivering our services in a remote environment while developing innovative solutions to support our clients during this period of heightened disruption. We believe we are in a strong financial position to continue to manage through this uncertain period and sustain and build our business for the long term. We remain committed to our long-term financial strategy with a focus on positioning Huron to achieve sustainable organic growth and expand margins over time.

While we have reduced visibility into the back half of 2020, we continue to believe our clients' challenges are mounting, from hospitals actively engaged in or preparing for a second surge in COVID-19 admissions while rethinking how they deliver care through telehealth or other virtual care settings to education institutions concerned with bringing students safely back to school in the fall, while managing increased pressure on their value proposition to organizations across industries focused on how to evolve their business model, digital strategy and related technologies to run and manage their business in a more remote environment. We believe Huron is well positioned to help our clients address these unprecedented and incredibly significant strategic, operational and financial challenges.

We continue to expect demand for our services in the long term to be strong as our clients progress in a recovery, look to address the immediate issues they face and focus on the possibilities of what a future and a post-pandemic world looks like.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Andrew Nicholas from William Blair. Your question please?

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

Hi guys. Good afternoon. Appreciate all the color in the prepared remarks. The first question I had was just related to second quarter results, obviously, much better than what you had contemplated on the first quarter earnings call. Just at a high level, could you just kind of pinpoint the top couple of things that outperformed your expectations? And then relatedly, can you give us some sense of how much that outperformance is more onetime in nature versus maybe a higher expectation for maybe more persistent demand into the back half of the year?

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

So Andrew, this is Jim. I'll take a shot at that and see if John wants to add some color. I guess the way that I have to respond to that question, you have to kind of go back to late April when we issued our last quarterly results. And at that time, there was a huge amount of uncertainty in terms of how this is going to pan out. And at the time, the hospitals were really trying to keep the hospital clear for all kinds of COVID patients. And so we looked at that scenario, and we kind of assumed that health care would be would be challenged. That Education would be equally challenged, particularly given that a lot of universities were beginning to send kids home for spring break, and we weren't really sure what was going to happen on the commercial side of things.

So probably the easiest answer is that the way things evolved in the second quarter is I think on the commercial side of things, the practices, particularly the restructuring and turnaround practice but also very much so ES&A, I think, performed better than we anticipated, largely, particularly for ES&A because we felt that a lot of clients saw the importance of having a digital transformation and a lot of what ES&A does is help clients really become much more proficient in terms of digital capabilities with their clients -- with their customers.

So certainly, the BA practice did well. I think the big surprise for us was probably Education, and -- but I think as we -- as John and I both indicated in the call today, what we saw in Education was really, in Q2, was the play out of some backlog that already existed earlier in the year. That was beginning to get played out, and so I think probably that's the biggest total surprise for us, was probably Education. We'll get to the commentary for the rest of the year in a second.

For Healthcare, I think that without kind of talking in the medical terminology, I think the worst of it probably hit the hospitals in the March, April time frame and then began to recover in May, and we saw volumes begin to pick up. We saw federal assistance begin to pick up. And so I think, so far, it seems like, at least for the hospitals and health systems, the worst of it's through.

So I'd say the biggest surprise is probably Education followed by the strength of our commercial business in BA. And I think Healthcare probably performed largely as we thought it was going to.

John, before we get to the rest of the year, is that fair?

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

Jim, I think that's fair, and I think that's a great kind of overview by business. If I was going to -- I touched on this in our remarks. If I was going to maybe just look at it on more of a consolidated level, Andrew, I'd say, as far as what really changed during the quarter, first, our teams just did an excellent job of working from remote. And our ability to burn through the backlog that we had entering the quarter by -- really that seamless transition was better than we even anticipated at that point in time. And then the second thing I'd call to that, again, is more of just a cross-company concept is our teams are really innovative during the quarter, developing offerings that were responsive to COVID-19 and the challenges our clients face. So we had low teen revenue during the quarter. That was the result of offerings that, if you were going to go back to the beginning of the year, probably weren't contemplated but that we're very responsive to on our client situation, plus some very tight management of expenses. So I'd say it's really that combination of doing an excellent job of working from remote plus the innovation to find new revenue streams that would help out our clients and see where there are a couple of the really key characteristics across the company.

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

So Andrew, I'm going to probably now go to the second part of your question, which is really kind of how do we see that playing out in the second half. And I think we'll apologize in advance for the kind of long response, but I think it's an important one. I think in terms of health care, I think we've already -- a lot of the volumes, the patient volumes are recovering. They're not quite back up to pre-COVID-19 volume levels yet, but they're approaching that. And so that's good news for our health care clients.

We're seeing a lot more movement towards in our performance improvement area, the technology projects as they're certainly taking on some of those projects right now to encourage their financial recovery. So that's working pretty well as well. The -- a lot of our demand for kind of COVID-related responses, particularly we mentioned Medically Home earlier, but other projects that are related to kind of helping test and treat and trace program issues with COVID are also taking place right now, and we're spending a lot of time with our hospital clients doing just that. So I think -- and I guess, finally, just with managed services and care transformation, there also continues to be a lot of our clients position themselves for what they believe to be are going to be changed but slightly improving economics over time. The business model is obviously changing. Telehealth is going to have a big impact of that. But I think they're sensing the worst of it's over. They're now beginning to prepare for the future and as best as they can.

So our view for health care is that, for the remainder of the second half, we're probably going to continue to see a slow but gradual increase in utilization and hopefully revenue as well. So we think the worst is probably over within health care, and I don't think it's going to be a big V-shaped recovery, but we think there will be a recovery from -- certainly from the second quarter. And we think it will be kind of slow and gradual.

On Education, as we indicated in the call today, Education is really kind of in a very different boat. I think for a lot of our clients, they sent the kids home in middle of March for spring break, and they have never come back, and now they're totally focused on the fall. And they're focused on the fall in a way that I think of the way our hospitals were focused on themselves back in March and April. There's a huge amount of uncertainty in terms of what's going to happen.

So some of our projects have continued at a reasonable pace. Our strategy and operations business has continued. Our student-related business continued. Our research businesses have continued at slightly lesser volumes. I think our larger system implementation projects are probably the ones that were most impacted. They were kind of paused for a little while probably in the second half in terms of the way they were going to progress. But now we're beginning to see life in some of those as the procurement process for the larger systems projects are moving forward. What it's done is it's caused a little bit of a push out in terms of our backlog and our pipeline, but we take some encouragement that those projects are now being put back on the table, and they're going through the procurement process today and in the next couple of months the way we thought they would have been going through most of the second quarter.

So there's going to be a delay in some of those bigger projects that will certainly have an impact on Education in the third quarter. But at this point, our hope would be that there's enough momentum in all the activities across our education sector that we'd hope to begin to have more momentum and growth starting in the fourth quarter. But a lot of it will depend upon kind of what happens in the fall. And so I think we're just kind of -- that's one of the reasons we're being cautious in Education.

It's largely the same reason we're being crushed in health care as well because we just don't know. But I think at this point, we need to be cautious on Education just to see how that plays out.

And then I think probably the easiest one to describe right now is our Business Advisory segment, which we believe is going to continue to have growth in it. As we mentioned in the call, there's some issues, shorter-term weakness around some of the strategy areas in our life sciences and Innosight business, but they both had projects recently that have picked up that we believe will be beneficial for the future. And then our ES&A and restructuring and turnaround businesses, we believe, are going to have a strong second part of the year.

So that's probably a longer answer than you wanted, but I hope it kind of -- it bifurcates the way things operated for us in the second quarter and the way we're looking at the second half of the year.

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

No, that's all really, really good. I'm checking off all the questions here because you covered a bunch of them, so I appreciate that. Maybe just one follow-up on Education. As I kind of think about -- you talk about building momentum potentially with better business generation in the fourth quarter. Obviously, the big issue for these universities or it sounds like a big issue for these universities is they're trying to figure out what's going to happen with the fall semester. Do you feel like if we run into a second wave or whatever, it may be that potentially puts the spring semester at risk? Is the fact that they've gone through this exercise for the fall semester mean that the impact on a relative basis could be less drastic for Huron and for these universities in the spring? Or just kind of thinking about if some of the worst could be past it regardless of what happens in the first half having gone through this exercise in the third and fourth quarter.

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

Well, one thing you need to remember is that majority of our education clients are the larger research universities, and they tend to have the financial wherewithal to kind of manage through. They got endowments to manage through some tougher times. So we -- for our business, that -- I think the revenue will be there. I think similar to what we saw in health care in the second quarter, where our leadership was distracted because of the urgency in the hospitals, we're seeing some leadership distraction right now in education for the same reasons because they're worried about just getting fall off to a launch.

But I think -- and some of them, frankly, are contemplating the possibility that there won't be students on campus in the spring. I mean that's a real possibility. I'm not predicting that, but it certainly is a possibility. And part of the work that we're doing would be helping them get that to the point where it would actually be effective. And so I think that's an important part for us to acknowledge, and that is whether it's making -- whether it's enhancing the access to cloud capabilities so that they can serve the faculty and the students and the staff more efficiently, whether it is just enhancing their overall digital capabilities. These are all things that are -- that they actually have teed up earlier for our -- for execution by somebody, hopefully, us in the second half of the year. And now they're looking at those and saying, well, maybe we're going to have a little bit of a delay, but we need them now more than ever. So that's what gives us comfort that this is really a matter of time. We just don't want to be too far ahead of the game and predict when that time is going to be.

I do think, though, that if the spring semester got compromised by not having students on campus that I don't think that it would affect us that drastically.

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

Great. That's really, really helpful. Thank you.

Operator

Our next question comes from the line of Tobey Sommer from SunTrust. Your question please?

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

How are you thinking about hiring talent? And it's a tricky thing with uncertain near-term demand to try to build the right capability to deliver your services over the medium term kind of 2 and 3 years out. How are you going to thread that needle?

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

Tobey, it's John. I can start, and Jim and Mark can provide color. So from a hiring perspective, throughout this entire period, we've still been hiring kind of people that we think are going to be part of our strategy going forward that are really differentiated talent that are going to help drive revenue for the company. So we never really hit the breaks on that because those are the type of people that we're going to need to continue to drive the company forward.

We have been more cautious, I'd say, on more general hiring just given the uncertainty that we see from a revenue perspective. I would say, as we now progress through the back half of the year, the trend lines in our ES&A business, in the Business Advisory segment, our technology business as well as the distressed advisory business, some very strong client demand trend lines within those businesses. So I think you will see us hiring talent in those areas. And to the extent that we have softness in some of the other areas of the business for reasons that Jim described, I think our plan would be to be able to repurpose our employees that have the right skill set to help out in some of those other areas where there's stronger demand.

So I think the collaboration between our teams is really important. I think you will see hiring for specialized talent in the technology and distressed advisory parts of the business and across the board, to the extent there's talent out there that's differentiated, that's really going to drive our strategy moving forward, we're still looking at those opportunities.

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

How are you -- what are you expecting in terms of pricing? And I say that in terms of both bill rate consultant level as well as the form in which your customers are going to want to contract, 40 to 50?

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

Yes. I'll start on the healthcare side. Go ahead, Tobey. Sorry.

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

No, no. Thank you.

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

Okay. I'll start on the health care side. I'd say we haven't seen any significant changes in the pricing environment. To your question, we have seen clients with more interest in performance-based fee arrangements, which probably reflects some of the financial strain that they're under now, but they need to improve their margins going forward. Typically, actually, those types of arrangements are attractive to us from a margin perspective. So I'd say that's probably the main thing we've seen on the health care side.

From a Business Advisory, perspective, the market has been quite robust, again, for the technology practice, the ES&A practice. So there hasn't really been tremendous pricing pressure there. And then, of course, in the distressed market, there's a lot of demand right now. So if anything, we've seen an improving demand market there. I'd say on the education side, as our clients are working through this disruption, that might be one area of the business where we see a little more competition on the pricing side. But even that, I'd say it's a little bit early at this point to call a full trend. That's just an observation based on what we've seen so far.

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

And with respect to the size of contracts, you did mention a little bit more perhaps contingent fee. Am I right that we should associate that with the larger scale projects? Or is there not a relationship there?

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

I would say, Tobey, it could be -- it certainly is something that you often associate with larger projects. You can see them in kind of middle-sized projects too. To your point, smaller sized projects, you typically don't see that arrangement because it's just not necessary at a lower fee level, but it's kind of in that medium to larger project range that you do tend to see more performance-based fees, and typically, it's within the performance improvement side of the business.

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

Okay, thank you. I'll get back with you.

Operator

(Operator Instructions) Our next question comes from the line of Kevin Steinke from Barrington Research. Your question please?

THOMSON REUTERS

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

Hi, I wanted to discuss maybe a little more kind of broadly about your health care clients seeing patient volumes build back up in May and June. But just curious if you're seeing geographic vary and those (inaudible) trends based on where some COVID hotspots going on right now or (inaudible) not in those areas where there are still spikes in cases now.

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

Kevin, this is Jim. We lost you a little bit at the end, but I think your question was really about picking up patient volumes and whether we're now seeing any geographic concentrations of areas. And...

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

That's correct.

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

Okay. Yes. And I think we saw -- it was -- it seemed to be pretty much national back in April and May. And I think now is -- I mean, certainly, there are some hotspots in the southeast, but I don't think we're -- I think in general, we're seeing a lot of the hospitals, even in the hotspots, are still able to focus and concentrate their COVID patients and I don't think are having to clear house the way they anticipated having to do it the way they did back in April and May, so -- or March and April. So I think it's not as much of an issue right now, even though the virus obviously continues to loom in a lot of places. I think the use of ventilators is a lot less based on what they've learned. And so I think the access to nonelective surgeries -- again, it's not back at the normal levels yet, but they're trying to get it up to 85% or 90% in some cases. And I think when -- our understanding is, in some cases, the margins have begun to come back a little bit nicely as well. But I don't think there's as much -- it's certainly not a national issue, and to the extent that there's more localized issues, it's not widespread because they're handling this kind of more surge differently than they did back in March and April.

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

Okay. Yes. That kind of led into what I was going to ask next because -- I mean you kind of answered it already, but daily COVID cases in the U.S. are actually triple or even more than what they were back in April and May, say, but it sounds like hospitals just aren't going into complete shutdown mode like they did back then. And so you're not necessarily seeing this dramatic drop-off in elective and other procedures like you did before, it sounds like.

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

That's correct. I mean, I think -- again, it's not my area of expertise, but I think hospitals have clearly learned that this time around, they're handling things very differently. And I suspect that if they knew today -- if they knew back then what they know today, it probably would have been a different situation. But we're all learning on this. So I think the hospitals are in better shape right now, and they're learning who and where they can be having them. I do know that in some of the hotspots, so for example, even California, we referenced our Medically Home capabilities that we were able to stand up the virtual hospital. That has a big impact, and I think that's more and more kind of what you're going to see hospitals begin to do as they try to get more creative and innovative in terms of the way they can deal with potential waves of patients.

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

Yes. The comment I'll add to this is just that I think in the initial waves, you saw a lot of hospitals shutting down everything with their elective procedures. And in doing that, you had hospitals that really never had their ICUs at capacity. And so there was a lot of impact to the system by virtue of taking out those elective procedures. And I think now the element of patient volumes not getting back to where they were is partially related to the level of comfort that patients have in actually engaging into hospital settings, and so that's taken some time to get back. In fact, our practice leader in health care, he already needs a knee replacement. He's going to wait a little while, and this is a good example of the kind of thing that I think is really going to keep things a little slower than normal for a while.

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

The other thing that I think I'll point out as well is that the federal funding, just post-COVID funding for hospitals has come through and has made a material difference for a lot of them. That's not the case in education. But I think if you go back and look at -- I think in the end, when you go net-net, some of the losses for some of the hospitals weren't as bad as they once thought after they received kind of -- after they were able to get some of the additional funding from the federal government. So they're still struggling, there's no question about that. But I think they're in slightly better shape than they anticipated. They might have been in the thick of it back in April and early May.

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

Okay. Great. That's helpful. I wanted to talk about business advisory as well. It sounds like the demand outlook is pretty steady relative to what you saw in the first half, although just looking at the mid-single-digit guidance you gave for the full year implies that there would be a slowdown in growth in the second half. So I don't know if that's just some conservatism or limited visibility or you're actually seeing some softer demand trends there. Just any more commentary on outlook for business advisory in the second half?

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

I think I can start, Kevin, with the mathematical answer, then I'll hand it over to Mark for the some more business perspective. I think it's a couple of things. I think first, they had a really nice first half of the year. Like we said on the call, it was a record quarter in the second quarter. So there probably is just some caution about not extrapolating that record out into the third and fourth quarter, though, we feel very good about what we see in the market. And then the other item would just be the fourth quarter of 2019 was very strong for them, and that represents a more difficult comp. So I think it's really just trying to be balanced and cautious given the great activity we saw in the first half and potentially a tougher comp by the time we get to the fourth quarter.

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

Yes. I think that's exactly right. I think it is somewhat conservative because again, the underlying trends that are driving those businesses, nothing has really changed dramatically there. And arguably, even some of the areas we saw some softness strategically, there is a need for reviewing what your strategic positions were coming into COVID and now how are you going to emerge and recover. So I'd like to think we are, again, taking a fairly conservative stance on the outlook for business advisory.

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

And also -- it's Jim. Just in general, I just think, I mean, when we look at kind of the way this is evolving over the last, whatever it's been, 5 months and we look at the ups and downs in the economy and everything else, it's just hard for us to be anything but conservative at this point in time I think in terms of the way we're looking at all of our businesses. So we're trying to take what we think is a realistic but probably conservative view and hope that things materialize in a way that will be beneficial for our clients and beneficial for us.

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

Okay. Great. And then -- so I wanted to talk about how last quarter you laid out 3 different scenarios, optimistic, base case and pessimistic. Would you say at this point as well as you could pinpoint it, I guess, that you're kind of tracking to the base case, which assume kind of a slow and uneven recovery due to sporadic resurgences in COVID? I mean is that how you see it playing out, a weaker third quarter and then starting to see some recovery in the fourth quarter? Or just kind of how are you thinking about how that plays out relative to the scenarios you had put out there?

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

Kevin, it's John. I can start. Just to give -- go back and give a little context on those scenarios. I mean that was obviously very much at the beginning of this disruption that we've all been through. And we really were trying to think about what different scenarios for our end markets and how that might flow through to our business. And it wasn't just a one size fits all answer for Huron, it was an answer that varied by segment. So I'd say for the health care segment, I'd say we're trending sort of between the optimistic in the base case relative to those -- that perspective that we had at the end of the first quarter. I'd say that the optimistic part is the way that we've seen utilization rebound as the quarter improved and some of the activity we're seeing in our pipeline, whereas the actual performance in the second quarter, they were down mid-June. That's probably more in line with the base that we had expected.

For the Business Advisory segment, I think it's been trending towards the optimistic perspective overall versus what we expected. The technology business and the distressed business have seen very strong demand. It was a record quarter during the second quarter. The one mitigating factor there is, I think, for our strategy team, it's been more like the base case. They've had a softer second quarter. We're anticipating a softer third quarter, but we still feel real good about their offerings in the medium and longer term.

And then on the Education side, we were pretty explicit in the scenarios that we put out there that what would happen this fall would be a big determinant about whether -- at least in the short term here from a timing perspective, whether it was going to be the base case or a more pessimistic case. And so that, I think, is a little bit TBD at this point based on what happens. I think that if schools are able to get back to campus, I think that, that puts us more in line with the base case. To the extent that the surge continues and that they're not able to get back to campus, at least during the short term. From a timing perspective, that might put us a little more in the -- towards the pessimistic case.

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

Okay. That's excellent color. I appreciate it. That was all I had today. Thanks.

Operator

Seeing no more questions, I'd like to turn the call back over to Mr. Roth for any further remarks.

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

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

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.