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HURN - Q3 2013 Huron Consulting Group Inc. Earnings Conference Call

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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 2013. (Operator Instructions) As a reminder, this conference 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 morning's webcast.

The Company will be discussing one or more non-GAAP financial measures. Please look at the earnings release on Huron's website for all 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.

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

Good afternoon and welcome to Huron Consulting Group's third-quarter 2013 earnings call. With me today is Mark Hussey, our Executive Vice President and Chief Financial Officer.

I am pleased to report strong third-quarter results for Huron Consulting Group. Huron Healthcare led the way with another solid quarterly performance, which helped to offset some softness in our Huron Legal and Huron Education and Life Sciences segments. Huron Financial, while representing a small part of our portfolio, continued to perform well.

We are able to report these favorable results despite additional costs related to practice-wide meetings held by both the Healthcare and Education and Life Sciences practices during the quarter, an uptick in M&A-related activities, and a significant increase in bonus accrual. I will now briefly discuss our performance in each segment.

Huron Healthcare, our largest segment, had another solid quarter. Revenues in the segment increased 16% over the same quarter last year and are up 21% year to date -- all on an organic basis. There is certainly not much question as to what is driving market demand; although, as I have indicated on prior calls, it is ongoing competitive market forces that are driving our business, much more so than implications from Obamacare.

Within the Healthcare segment, our Performance Improvement and Revenue Cycle solutions continue to provide solid results as they respond to for the ongoing cost pressures facing nearly all hospitals. Among all the headwinds and market changes impacting our hospital clients, the most prominent is the need to reduce costs and improve the efficiency of the billing and collection processes -- needs that are well aligned with our core competencies.

As we have been predicting, the Clinical Solutions practice achieved the fastest growth rate within the healthcare segment, stemming from significant demand for our strategy, physician, and clinical transformation services. The growth of clinical solutions reflects a significant demand for our services to help hospitals navigate the uncertainties associated with the evolving landscape. Our success in clinical, performance improvement, and revenue cycle solutions demonstrates the quality of our people and our continuing ability to leverage our reputation and brand as the leader in providing strategic and operational solutions to our hospital clients.

Turning now to our Huron Legal segment, as we had anticipated, the third quarter was soft from a revenue perspective. A more detailed view of the quarter showed that the results strengthened considerably as the third quarter evolved, with the practice recording its highest monthly revenue ever in September. There are four factors that we expect will lead to improved results in this segment for the fourth quarter and 2014.

First, there remains ongoing revenue stemming from projects within the financial industry. Our long-term clients in this industry continue to generate demand, and we have been fortunate to obtain a number of new financial clients that are likely to generate revenue in the coming year.

Second, our investments in the expanded sales team continue to meet expectations for creating new clients across multiple industries and lessening our concentration in the financial industry.

Third, we've made some adjustments to our cost structure in the segment that are already yielding improved operating margins.

And finally, we are seeing increased interest in our Integrated Analytics solution. The number of law department and law firm clients requesting Integrated Analytics continues to increase; and more importantly, the cost benefits to our clients that result from the use of this offering are helping to make the business case for expanded demand for our Integrated Analytics solution among our entire client base.

Turning now to our Huron Education and Life Sciences segment, for the first time in the past several years, we experienced some softness in this segment, following what had been a stellar first half of the year. The results were shy of our expectations from a revenue and margin perspective.

After this segment posted its three highest quarters ever, we experienced a delay in some larger projects this quarter that took longer than expected to come to fruition in both Education and Life Sciences. The growth of a practice is rarely a straight line; and despite the softness we experienced in this segment, the drivers of demand remain strong, and our recent addition of Blue Stone should lead toward improved performance for this segment during the remainder of the year.

In the month since Blue Stone has joined us, they have provided new competencies in areas that are strategic to our growth, and they are already working closely with many of our existing practices to provide data analytic capabilities in the healthcare, education, public sector, and other commercial entities.

Huron Financial had another strong quarter, continuing the solid growth that we have seen in this practice throughout the year. The depth of our experience among our personnel and our focus on the middle market has enabled us to avoid some of the downturns seen by some of our competitors. Demand remained strong, and we anticipate the remainder of the year will be consistent with our expectations.

Turning to our view for Huron for the rest of the year, we are increasing the low end of our revenue guidance by $15 million and increasing the upper end of the revenue range by $10 million. We now expect annual revenues to be in the $685 million to $700 million range for 2013, which includes our recent Blue Stone acquisition that we expect will add about $5 million to our Q4 revenues.

We have also increased our EPS guidance, for which Mark will provide more detail shortly. We are maintaining our annual performance-based revenue guidance in the Healthcare segment at $80 million to $90 million, although our sense is that we will come in toward the high end of that range.

Before I turn it over to Mark, I want to conclude by saying that I am pleased with the way this Company is performing; and I remain optimistic about the opportunities ahead of us in all of our markets. We focus on only a few things at Huron, but we do those few things very well. The markets we serve have needs that are likely to require consulting assistance well into the future.

Our balance sheet remains strong, and we have an internal culture that enables us to recruit and retain the best personnel. I am very proud of the way our people are executing, and I remain honored to be working with over 2,500 employees who have made Huron such a great place to work.

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

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

Thank you, Jim, and good afternoon, everyone. Let me begin with a few housekeeping items.

Consistent with our past practice, I will be discussing our financial results primarily in the context of continuing operations. I will also be discussing non-GAAP financial measures such as EBITDA, adjusted EBITDA, adjusted net income, and adjusted EPS. Our press release, website, and 10-Q each have reconciliations of these non-GAAP measures to the most comparable GAAP measures, along with a discussion of why management uses these non-GAAP measures.

Finally, please note that the acquisition of Blue Stone International, while announced in September, did not close until October 1. It will be added into our Q4 results, as you will see when I discuss our updated guidance in a few minutes. I will now walk you through some key financial results for the quarter.

Revenues for the third quarter of 2013 were $174.7 million, up 7.9% from $161.9 million in the same quarter of 2012, and sequentially up 2.5% from Q2 of 2013. EBITDA for the third quarter of 2013 was $36.8 million, a 40.2% increase compared to $26.2 million a year ago.

Adjusted EBITDA was $31.5 million in Q3 of 2013, or 18% of revenues, compared to $41.6 million in Q3 of 2012 or 25.7% of revenues. Adjusted EBITDA excludes a $5.3 million litigation settlement gain in this year's quarter and a $13 million goodwill impairment charge in last year's quarter.

Adjusted EBITDA also excludes a number of other items, which are listed in our press release. The decrease in adjusted EBITDA margin in Q3 of this year compared to Q3 of last year primarily reflects an increase in bonus expense. As we've mentioned on previous earnings calls, we record our annual incentive plan accruals based on the midpoint of our annual guidance range. Since we have increased the midpoint, we recorded incremental bonus expense during Q3. Conversely, in the year ago quarter, we reduced the midpoint of the guidance range, resulting in a reduction of bonus expense.

Operating income increased 51.3% to $31.1 million in Q3 of 2013 compared to $20.6 million in Q3 of 2012. Net income from continuing operations was $17.2 million or $0.75 per diluted share in the third quarter of 2013 compared to $10.4 million or $0.47 per diluted share in the same period of 2012.

Adjusted non-GAAP net income from continuing operations was $14.8 million or $0.65 per diluted share in the third quarter of 2013 compared to $20.8 million or $0.93 per diluted share in the same period of 2012. Our effective income tax rate in the third quarter of 2013 was 42.2% compared to 43.4% in the third quarter of 2012. The effective tax rate for both periods were higher than the statutory rate inclusive of state income taxes, due primarily to the impact of foreign losses with no tax benefit and certain nondeductible business expenses.

Let's look at how each of our reporting segments performed during the quarter. The Huron Healthcare segment generated 49.8% of total Company revenues during the third quarter of 2013. This segment posted revenues of $87 million for the third quarter of this year, the second-highest revenue quarter ever, and a 15.9% increase from $75 million in the third quarter of 2012.

Operating margin for Huron Healthcare was 35% for Q3 of 2013 compared to 45% for the comparable quarter in 2012, primarily reflecting higher bonus expense, as I previously discussed. Performance-based fees in the quarter of 2013 were $22.5 million compared to $26.9 million during the third quarter of 2012. As discussed the past quarters, performance-based fee engagements can cause significant variations in our results due to timing. Utilization in the segment continues to be strong. For the third quarter of 2013, utilization was 80.2% compared to 76.1% last year.

Our Huron Legal segment generated 26% of total Company revenues during the third quarter of 2013. This segment posted revenues of $45.3 million in the third quarter of 2013, down about 2% from the $46.1 million in the comparable quarter in 2012. The decline in revenues was within our legal advisory business, while our discovery business held steady.

The operating income margin for our Huron Legal segment was 33.4% in the third quarter of 2013 compared to 24.9% in the third quarter of 2012. The increase in this segment's operating margin was mainly due to a decrease in contractor expense as a percentage of revenues. Decreases in restructuring expense, technology expense, and rent expense as a percentage of revenues also contributed to the increase in operating margin, partially offset by increases in salaries and related expenses for both our revenue-generating professionals and our support personnel.

The Huron Education and Life Sciences segment generated 20% of total Company revenues during the third quarter of 2013. This segment boasted revenues of $34.8 million for the third quarter of this year, a 2.8% increase from $33.9 million in the third quarter of 2012.

Operating margin for Huron Education and Life Sciences was 22.3% for Q3 of 2013 versus 36.6% for the comparable quarter in 2012. The decrease in this segment's operating margin was mainly due to increases in salaries and related expenses, contractor expenses, and a practice-wide meeting held in July.

Utilization for the third quarter of 2013 was 64.4% compared to the 73.9% reported during last year's Q3. The utilization decline is reflective of the large increase in billable headcount during the past few quarters, along with impact of the practice-wide meeting, which had about a 2.4 percentage point impact.

Huron Financial segment generated 4% of total Company revenues during the third quarter of 2013. Segment revenues were up 8% over the same quarter last year. The operating margin for this segment was 9.2% in Q3 2013 compared to 26.4% in the same quarter of 2012. The decrease was, again, mainly attributable to higher bonus expense, reflecting improved performance expected for the year.

Now, turning to the balance sheet and cash flows, DSO came in at 72 days for the third quarter of 2013. Cash flow from operations for the quarter was $43 million, and our net debt position decreased by more than $32 million compared to the end of Q2 2013. As you may know, we amended and extended our senior secured credit facility during the quarter to increase our flexibility to pursue strategic goals and improve our credit profile.

Turning to guidance, with the first nine months of the year behind us and more visibility into the rest of the year, we are raising and narrowing our guidance range. For full year 2013, we now anticipate revenues before reimbursable expenses in a range of $685 million to $700 million, which includes approximately $5 million from the acquisition of Blue Stone; EBITDA in a range of $133 million to $138 million; and adjusted EBITDA in a range of $127 million to $132 million; net income in a range of $58 million to $61 million; and adjusted non-GAAP net income in a range of $58.5 million to $61.5 million; and finally, GAAP EPS between $2.55 and $2.67, while adjusted non-GAAP EPS guidance is between $2.60 to $2.72.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tim McHugh, William Blair.

Tim McHugh - *William Blair & Company - Analyst*

I guess, first, on the Education practice, can you give us any more color on whether or not -- you talked about some large projects slipping. Have those started? And can you give us any more color, I guess, that you get comfortable the underlying demand is still there? There hasn't been any weakening that will impact you on a more medium- to long-term basis?

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

Yes, Tim, this is Jim. Let me answer both of those. In terms of large projects, the Education and Life Sciences practice doesn't have large projects, typically, the way that Healthcare does. I mean, on any given day -- I don't know; we probably have 150, 200 engagements going on in the Education and Life Sciences practice. Whereas in Healthcare, all year we don't have more than 50.

And so a large project in Education is much smaller, so it doesn't have as much of a significance. The way I would answer your question, though, is that we are not seeing any decrease in demand. I think what's happening is the nature of the work that we are doing -- and this has really been something that's been going on for at least the past year -- it frankly tends to be increasingly invasive. I think that there's so much change going on in education, in particular.

And to set up one of these engagements, to have the university be in a position where they can contemplate major differences in their strategic direction or any other strategic initiative -- it just takes a lot longer to get it through the normal organizational structure within a university, which includes having to get some of the faculty aligned.

And so these projects are more invasive. There are things that they haven't dealt with, and so they just take a little bit longer. So it's not as though there were one or two major projects that simply slipped; it's just that they are taking a little bit longer for us to get them actually going.

And we've seen this for a while. My guess is -- we feel very, very comfortable about the ongoing demand. And I've said in the past that if you could see the nature of the work that we're doing and the kinds of projects we are being asked to do, it's really exciting for us. And I think it's going to be going for quite some time.

Tim McHugh - *William Blair & Company - Analyst*

Just to follow up to that, the things that got delayed -- did you see them get ramped up at this point?

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

Yes, some are getting ramped up now. Others are still kind of working themselves through the system. But while all of this is going on, we've had other things that have started up. So it's just -- I think there was nothing material in this quarter that changed our mind at all about the longer-term demand for work here.

That's why we made the point this was -- we've had a great run for a long period of time. And I think that this was just a quarter where a number of things just kind of caught up to it. But I don't see it at all reflective of where we think the demand is going to be in this practice for the foreseeable future.

I still expect that the segment itself is going to be up more than 10% over the course of the year, and that excludes Blue Stone. And so we're still very excited about what we believe to be some of the prospects coming down the pike for this practice.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And then just on the SG&A, Mark, maybe -- I know you have talked a little bit about M&A expenses and the employee-wide meetings for some of the segments. And then I think you said just higher bonus accruals. I don't know if that was in direct costs versus SG&A. But SG&A being up kind of $7 million or so sequentially, can you help us quantify how much each of those factors was?

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

Yes. In terms of the range of the order of magnitude, Tim, bonus is going to be number one; and then practice meetings between the Healthcare and the Education and Life Sciences is probably number two; and then, to a smaller degree, it's going to be the M&A activities. Again, if you look on a year-to-date basis, I think you'll see that our SG&A as a percentage of revenues are down about 100 basis points versus last year over the same period. So we see these not necessarily as a new level of ongoing SG&A expense, but rather discrete events that happened primarily in the quarter.

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

And Tim, this is Jim. I want to make a comment about the all-practice meetings, because we had two in this quarter. And there's no question that they are expensive, and the easiest thing for us to do would be not to do them at all. But I'll tell you, I obviously attended both of them. And it is such an unbelievable way for us to take our people -- some of whom are younger and brand-new in the business -- and get them all together to see what we have going in the practice and have them meet their peers. It makes such a huge difference for us.

I truly believe it reflects itself in what continues to be, for us, very attractive, very low turnover statistics for our business. And part of it is just the culture that we establish, and we establish a culture there. So there's no question they are expensive; but I'll tell you, in the long run, they are absolutely well worth it.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And then last question, on Legal. You talked about best month or record month in September, and I know you gave some qualitative comments, I guess; but on a short-term basis, do you think that can continue into the fourth quarter -- I guess throughout the fourth quarter?

And are the trends that you're seeing there long enough or strong enough that you might actually be comfortable thinking that that business can grow again next year? I know you are usually hesitant, given the lumpiness, to say that. But given the qualitative comments, I'm curious if your outlook would be stronger.

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

Tim, this is Mark. I'm going to take a first stab, and then I'll have Jim add some color. I think for Legal, it was a great month. As you know, in this business, big things come and big things go very quickly. So I would say at this point, when you look really at our expectation, it's going to be somewhat of a flattish year for Legal. We think very positively about some of the recent hires that we've done and the outlook, but I think at this point we're a little bit more cautious, just given where the year has come out to be.

But we're pretty optimistic at the same time. I think if you go back to the last quarter's call, we thought the second half would be better than the first half. And I think that's really still in line with our expectation.

Operator

Paul Ginocchio, Deutsche Bank.

Paul Ginocchio - *Deutsche Bank - Analyst*

Just another question on the Education margin. So it sounds like if it weren't for the revenue that -- the costs were up Q on Q, at least the way we're looking at them. But if it wasn't for the sort of revenue slippage versus your expectation, that margin would be normal. Is that the right way to think about it?

And then just on that meeting, is there any way to size -- for the Education and Life Sciences, is this the first division-wide meeting? How often do you have them? Should we start planning for it in the third quarter of every year? Thanks.

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

You know, Paul -- this is Mark. So going back to the -- the Education team has had meetings in the past, but this one happened to be -- because of their size now, they've gone to Las Vegas, which is a fairly inexpensive place to go in the middle of July, when it's 108. But nevertheless, it's not St. Charles, Illinois, either. So there is some incremental cost in the quarter.

So it definitely had some impact of probably more than a couple of hundred basis points on the impact. But I'd say, really, you've got two other things going on -- the utilization being a little bit lower than where it's been running in the year ago; and then also, we mentioned some of the contractor expenses. A little bit of a mix issue, but fundamentally, that improving of the utilization is one of the things that we are really focused on right now as we look ahead.

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

And, Paul, this is Jim. I would only add to that that if you look at the billing rates that we are getting, we are pretty much even with where they've been. And so I think, for us, we had ramped up -- even going back to 2012, we had begun a ramp-up in anticipation of demand.

We knew that demand would be significant. We had really good quarters for a while, and this is the first time where -- as I said, there was no one -- I wish it was easy to put our finger on one specific issue. But I think the utilization took a hit because some of the projects got dragged out longer than we thought.

But, again, none of it changes the way that we're looking at this market. In fact, I'm probably more excited than ever. As you know, I am in this market, so I see and hear a lot of the stuff that goes on. And I think we're going to have a very bright future in this practice.

Paul Ginocchio - *Deutsche Bank - Analyst*

Absolutely. I guess, just looking at the utilization rate Q on Q, it is down a little bit; but it was down a little bit in the second quarter as well, when margins went higher Q on Q. So I guess I can't quite -- the size of the Q-on-Q decline in margin doesn't sort of match up with the Q-on-Q decline in utilization. So I guess it's the other two items, too.

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

That's exactly right, Paul.

Operator

Randall Reese, Avondale Partners.

Randall Reese - *Avondale Partners - Analyst*

When you were putting together this revised guidance, I was wondering if you could give us an idea of what you were thinking directionally from third quarter to fourth quarter when it comes to headcounts and utilization rates?

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

Sure, Randy. This is Mark. So from a headcount perspective, again, as we look at where we think we will end up for the year in total, we're probably looking at -- again, kind of in the low double-digit percentage growth. So we do have a number of hires that we are extending offers to and we expect to start here in the fourth quarter.

Utilization -- if you look Q3 sequentially to Q4, Q3 was really depressed not only because of the Education meeting having a couple hundred basis points; it was also in the Healthcare practice as well, which was in the same situation a year ago. So we would expect that utilization in the fourth quarter would rebound on an average basis in the 75%, 76% range.

Randall Reese - *Avondale Partners - Analyst*

All right. As far as the FTEs in legal, I'm having a hard time pegging the trend there. Can you give me an idea of what the next couple of quarters might look like? Because we've been trickling down for quite a while.

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

The FTEs in legal are really a function of how much review work is done in discovery. So it is very difficult to peg a trend exactly. So we don't normally think of that exactly in those terms, but our expectation would be that there is not further decline; we'd see a little bit of rebound in the fourth quarter.

Operator

Bob Craig, Stifel.

Bob Craig - *Stifel Nicolaus - Analyst*

Mark, first question -- I know we danced around this with prior questions, but I'll ask it specifically. You were kind enough to rank bonus number one; meetings, two; M&A, three as the impact on SG&A. Is it possible to quantify in dollars what that impact was this quarter?

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

Well, let me just give you the largest one rather than the smaller ones. Let me just tell you that bonus in the quarter was over -- the incremental expense was over 300 basis point impact in the quarter.

Bob Craig - *Stifel Nicolaus - Analyst*

To the overall Company? Or to a specific --.

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

Yes.

Bob Craig - *Stifel Nicolaus - Analyst*

Okay.

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

It's to the overall Company.

Bob Craig - *Stifel Nicolaus - Analyst*

Okay. And as far as what we should assume as a run rate in dollars in SG&A in 4Q -- I take it it's going to be several million dollars below where it was this quarter. Is that an accurate assessment?

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

Yes, that's true; especially because of the practice meetings. And again, some of the M&A expense -- while we have always some things going on, it was a little bit higher in Q3.

Bob Craig - *Stifel Nicolaus - Analyst*

Okay. And could you help us out a little bit, Mark, in terms of any guidance on accretion from incremental contribution from Blue Stone in 2014? I take it their run rate in revenue is over $20 million; and I think most people have assumed, including ourselves, about $0.10 accretion. Is that -- do those numbers meet with your approval?

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

Bob, I think it's probably somewhere in that range. It's a little hard to say at this point, because we haven't finalized our budgets for next year. But suffice to say based on -- you know, you take the $5 million, and if you annualize that with a little bit of growth, and then you assume a conservative margin, I think you'd probably end up in that neighborhood.

Bob Craig - *Stifel Nicolaus - Analyst*

Is there any seasonality -- unusual seasonality to their business? Or is it fairly even revenue flow?

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

We are going to find out pretty soon.

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

Yes. We haven't (inaudible) through the cycle yet. So my sense is, Bob, because they -- this is Jim -- because they sell across the multiple industries, I -- we are not aware, at least I'm not aware, of any seasonality that we should be expecting. I think it would be reasonably pro rata.

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

The diligence would tell us that there is a little bit of timing with the budget approval process. But, again, it's a little bit hard to decipher if that's really what's driving it, or if it's specific project timing. So our expectation is probably going to be increasing with growth, but not tremendously driven by seasonality.

Bob Craig - *Stifel Nicolaus - Analyst*

Okay. As you look out to 2014 -- and I know you're not in a position to give specifics now -- but do you see material changes in the pace of billable headcount growth in any of your segments? And if you do, why?

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

We have not finalized any of our plans. I would say, generally speaking, our billable headcount growth, largely, over time -- and again, you see this even this year, where you have gaps between reported revenue and what the headcount growth is. But over time, the billable headcount is going to track approximately with our long-term revenue growth rates.

Operator

Tobey Sommer, SunTrust.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

You mentioned some of the new projects in the ELS segment is perhaps more invasive and, I guess, essential in terms of the changes to the client. Does that imply that perhaps they could be of a larger size?

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

I'm sorry, Tobey, that they could be what?

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

They could be larger if they are more invasive than in the past?

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

Yes, I think they could be. I mean, if you look back traditionally, the ELS segment has had -- typically has had a handful of pretty decent-sized jobs, and then other projects that are probably more in the two- or three-month range.

And I think some of these are going to likely -- if they come to fruition -- some of them already have, and others will continue; I think they'll end up having a slightly longer duration. But whether that impacts the overall average size of a project remains to be seen, because we are also doing work -- historically, we have done work in that segment, at least in Education, with the larger research universities. And over the last year and a half or so, we've expanded that because of all the changes that are going on in Higher Ed.

We are actually getting requests from a lot of places that we might not have done work at two years or so ago. And so we have an increasing scope of institutions that we can do work with. And so how that all ends up panning out, I don't know; but there's a lot of turmoil right now in the industry, a lot of change taking place. And it bodes well for the kind of competencies that we have.

Operator

Joseph Foresi, Janney.

Jeff Rossetti - *Janney Montgomery Scott - Analyst*

This is Jeff Rossetti on for Joe. Thanks for taking my question. Just wanted to get a little background on the Healthcare backlog. I know you have mentioned, Jim, the strength from performance improvement in revenue cycle and clinical solutions. Just want to see how, if you look at your backlog, how that is shaping up for those three practices, just, say, compared to the last three months?

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

Yes, Jeff, we don't really provide the backlog information. I'll tell you, the market is strong, as I indicated in my opening comments. It's for all the reasons that you read about every day. The market remains very strong.

And whether it's consolidations; whether it's clinical integration; whether it's just the bread-and-butter cost reduction and revenue enhancement; there's just so much change taking place, and that's really what's driving our business right now. And we don't provide the backlog information in those areas, but suffice it to say that I think the market remains very strong. And we see this going on for some time.

Jeff Rossetti - *Janney Montgomery Scott - Analyst*

Sure, yes. I was just hoping to get some qualitative color. As far as your investments on the headcount side, is it weighted towards any of those -- one of those three particular practices? Or if it's evenly distributed -- just trying to see -- I know that the clinical solutions is probably growing off the smallest base.

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

It is growing off a small base. It's also the one that is really providing a lot of the big opportunities. We are hiring across all three of those solutions at a pretty regular pace. But I do think you're going to continue to see -- even though it is off a smaller base, you will continue to see clinical solutions with, by far and away, the largest growth rate within the practice.

Jeff Rossetti - *Janney Montgomery Scott - Analyst*

And then just one final thing, just on those -- I think you mentioned earlier about maybe there is 50 ongoing projects for Healthcare at any given time. Anything that's kind of an outlier, or is there any kind of change in the duration of some of the projects in terms of size and duration?

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

No, I think the pattern of work that we are getting is really not any different than we've been getting over the last couple years, both in terms of size, but frankly, also in terms of composition between fixed and contingency. As we said before, we kind of see this little ebb and flow of projects over time between contingent and fixed. And it seems to always fluctuate between 40% and 60% for reasons that are never clear to us. But it somehow evolves in that pattern.

But really, it's hard. Between not knowing where that pattern is going to evolve, and what the timing is of the contingent revenues, we just take comfort in the fact that the market remains strong. And we don't worry so much about the nature, the type of job that it is, whether it's going to be fixed or contingent.

Operator

(Operator Instructions) Randall Reese, Avondale Partners.

Randall Reese - *Avondale Partners - Analyst*

Just following up. I was just looking at the behavior of your direct cost for each of your business units through this year. Did some of your unusual expenses flow through there this quarter in Healthcare and Education and Life Sciences?

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

Well, when you say the unusual expenses, Randy -- so to the extent that -- we said we have higher bonus expense. To the extent that that is tied to the direct headcount that is being delivered, it's definitely going to flow through into that particular line item.

Randall Reese - *Avondale Partners - Analyst*

That wasn't where I was looking at, particularly. So that would be all bonus, the increase from second to third quarter?

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

Yes.

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

That's what we said was --

Randall Reese - *Avondale Partners - Analyst*

Just normalizing out the year?

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

Yes, about 300 basis points' worth in the quarter.

Randall Reese - *Avondale Partners - Analyst*

Yes, but there wasn't anything else in particular? All right. Thanks.

Operator

Paul Ginocchio, Deutsche Bank.

Paul Ginocchio - *Deutsche Bank - Analyst*

In your early response around headcount growth, I don't know if you're referring to overall headcount growth. Or are you specifically talking about the Education and Life Sciences?

But it looks like Education and Life Sciences's quarter-end consultant headcount has been down for the last two quarters. What's the outlook for the fourth-quarter hiring in that division, if you can give that number?

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

Paul, it's Mark. So we expect it to go up a little bit, because we have some campus hires coming on. But with utilization at the level that it is, we've been pretty lean in terms of the net hiring that we've been trying to do, just as we really try to get back into that range that we have historically operated the practice in from a utilization standpoint.

Operator

Tobey Sommer, SunTrust.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

I think you said contingent fees for the year, $80 million to $90 million, with slightly -- biased towards, I guess, the high end. What does that imply for the fourth quarter?

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

So Toby, I think through the first three quarters -- we're just about $60 million right now through the three quarters. So that would imply, with our range of $20 million to $30 million, what we're saying is it will probably be at the upper end. So probably closer to the $30 million.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

And how does that compare to the fourth quarter a year ago?

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

It's actually a little bit lower than the fourth quarter a year ago. I think last year's fourth quarter -- I'm just going to check the number quickly here.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Sure, I'll ask another question, then. Jim, could you comment on what retention has been like, recently, in particular, in light of the teambuilding exercise that you have had with the all-practice meetings?

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

Yes. We are angling towards annualized turnover -- probably going to be about the lowest that we've ever had before. Our sense is it's going to be about 12%. So that's the part that -- I think it was about 13.5% last year, which I think kind of industry-wide is pretty low. But we are angling toward about 12% this year.

So we're pretty pleased with that. And there's no question that those kinds of events, as I said, while costly, play a huge role in making this place kind of special.

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

Last year's Q4 was $32.3 million.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Okay, thanks. And is that 12.5% figure a -- is that a qualified attrition figure? Like voluntary?

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

That is voluntary.

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

That is voluntary, yes.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Okay. And last question for me is, Mark, were the professional fees in the quarter associated only with the acquisition of Blue Stone?

Mark Hussey - *Huron Consulting Group Inc. - EVP, CFO, and Treasurer*

No.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Okay. And then, as a follow-up -- I guess I fibbed. Jim, if you were going to only apply capital to one segment of the business, which would it be?

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

I love all our segments equally. I think you knew that was coming. We actually -- we have been looking aggressively at M&A across all of our areas, and it's just hard -- but we're also very selective. And so we are ready, willing, and able to apply it across any one of the segments.

And I hate to pick one where I would do one specifically, because I don't think -- we will make the decisions based on the merits of the potential deal. But there are good M&A options across all segments. We're looking at many of them aggressively, and we have to be protective. We are so incredibly conscious about M&A that has not worked out well before, and we are cautious about it. And we feel privileged to be in a position where we don't need to rely on M&A activity to fuel what we believe to be as pretty good growth in the future. So if we can find somebody that works for us, we'll do it.

Operator

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

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

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 and year-end results. Good evening.

Operator

This concludes today's conference call. Thank you, everyone, for your participation. You may all now disconnect.
