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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to Huron Consulting Group's webcast to discuss the financial results for the first quarter 2022. (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 reconciliations to the most comparable GAAP numbers.

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

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

Good afternoon, and welcome to Huron Consulting Group's First Quarter 2022 Earnings Call. With me today are John Kelly, our Chief Financial Officer; and Mark Hussey, our President and Chief Operating Officer.

Our strong first quarter results reflect the continued momentum that started early in 2021 and has now expanded across all 3 of our operating segments. Revenues grew 28% over the prior year quarter, reflective of the strong demand in each of our core industries. In addition, our digital revenues increased 36% in the first quarter of 2022 over the same period in 2021, reflecting solid demand for improved integration of technology and analytics into our clients' business operations.

As we've shared on previous earnings calls, our strong results further demonstrate that we are delivering on our commitment to sustainable revenue growth and improved profitability. As we will discuss in a few minutes, demand for our services across industries remains strong, and we are strategically and operationally well positioned to take advantage of the vibrant market ahead.

I will now share some additional insight into our first quarter performance. During the first quarter, Healthcare segment revenues grew 27% over the prior year quarter. The increase in revenues in Q1 of 2022 was driven by strength in demand for our performance improvements, revenue cycle managed services and digital offerings.

We've mentioned on recent investor calls the ongoing challenges facing the health care industry. It's worth reiterating the primary challenges facing our clients, as we expect these challenges to continue for the foreseeable future. We see the most difficult challenge as the strained cost structure stemming from dramatic increases in labor costs. High turnover, increased compensation for clinical and administrative staff, and a heavy reliance on contract labor has pushed costs well in excess of the trend in reimbursement rates. These factors, coupled with employee burnout, worsening payer mix and inconsistent volume recovery, have all contributed to increased financial pressures for much of our client base. We expect these pressures will continue to drive increased demand for our performance improvement, strategy and people-related offerings.

In addition, health care providers are focused on evolving their care delivery models, including by establishing virtual care in the home. Through our exclusive partnership with Medically Home, we have successfully implemented the hospital-at-home model for numerous health systems to help them create competitive differentiation, expand consumer choice and increase their growth potential.

The opportunities to treat patients at home are part of a broader trend in digital transformation among health care providers. As reflected in the strong growth in our digital offerings, we are providing the data, analytics and technology to help our clients achieve growth and scale in their business models while helping them stay competitive amidst an increasing array of nontraditional participants in the health care market. Our deep subject matter expertise and our consistent ability to transform our clients' businesses and deliver measurable improved outcomes positions us to address the demand in the market today and the growing market opportunity in the years to come.

Turning now to the Education segment. In the first quarter of 2022, Education segment revenues grew 57% over the prior year quarter, driven by strong broad-based demand across all of our offerings in this segment. Education segment revenues grew 20% sequentially over the fourth quarter of 2021, highlighting the continued momentum in demand for our services in the education industry.

As we indicated in our recent Investor Day, over 75% of higher education institutions are seeking to change the way they do business following the pandemic. These changes include transitioning to the cloud, executing plans to ensure future financial sustainability, expanding the research enterprise and seeking better ways to serve the student population while attracting new students in a demographically challenged environment. Our Investor Day created an opportunity for us to provide greater insight as to aspects of our education industry capabilities that we believe are underappreciated among the investor community.

We are bringing to market offerings that are in high demand as our client base makes long awaited changes to the way they operate their business. In particular, many of our large research university clients are having to make significant investments in upgrading their digital capabilities and improving the efficiency in which they manage their academic and research operations. With our team of over 1,000 employees focused exclusively in the education industry, we have a distinct competitive advantage and are well positioned to help our clients achieve their goals with our strong strategy and operations, research, student and digital capabilities.

Turning to the Commercial segment. In the first quarter of 2022, Commercial segment revenues grew 3% over the prior year quarter, driven by strong demand for our digital and strategy offerings in the commercial industries, particularly in financial services. The increase in revenues from our digital offerings were partially offset by the decrease in revenues from the divestiture of our Life Sciences business in the fourth quarter of 2021 and lower demand in our financial advisory capabilities.

Excluding the impact of the Life Sciences business, the Commercial segment grew 12% in Q1 2022 over the prior year quarter. Our digital and strategy capabilities continue to perform well, leveraging our deep industry expertise and distinct reputation as we build market share in the large and growing commercial market, most notably in the financial services and energy and utilities industries. Our digital offerings in the commercial markets grew 23% in the first quarter of 2022 as compared to the same period a year ago, further demonstrating the strong demand for our technology and analytics-related services. We've established a strong set of offerings, building a solid foundation from which we believe we can further accelerate growth in this segment.

Finally, let me turn to our outlook for the year. We typically do not adjust our annual guidance after the first quarter. However, our strong first quarter results and the demand across all of our operating segments lead us to increase our annual revenue and earnings guidance. As our press release indicates, we are increasing and narrowing our annual revenue guidance to $1 billion to $1.05 billion. We are also maintaining our adjusted

EBITDA guidance in a range of 11.25% to 12.25% of revenues, and increasing and narrowing our adjusted diluted earnings per share in a range of $3 to $3.40. We are raising our revenue guidance to reflect the current and anticipated demand for our services across all segments.

As we mentioned at our recent Investor Day, to achieve our strategic and financial objectives, including delivering strong revenue growth and margin expansion, we are focused on accelerating growth in healthcare and education, growing our presence in the commercial industries, advancing our integrated digital platform, building a more sustainable base of revenue to drive consistent growth, and strategically deploying capital to accelerate our strategy and return capital to our shareholders.

We believe we have a significant growth opportunity ahead of us, and we are well positioned to capitalize on that opportunity. Market conditions remain favorable for our core offerings, and we believe that we will continue to achieve strong results consistent with the outlook we described in our Investor Day presentation and our commentary today. Now let me turn it over to John Kelly for a more detailed discussion of our financial results. John?

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

Thank you, Jim, and good afternoon everyone. Before 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.

Now let me walk you through some of the key financial results for the quarter. Revenues for the first quarter of 2022 were $260 million, up 28% from $203.2 million in the same quarter of 2021. The increase in revenues in the quarter was driven by growth across all 3 operating segments, reflective of the significant growth opportunities in each of our core industries. In addition, revenue within our digital capability increased 36% in the first quarter of 2022 over the same period in 2021, reflecting increased demand across all of our core industries as our clients continue their digital transformation.

Net income was $26.9 million or $1.27 per diluted share in the first quarter of 2022, compared to $5.4 million or $0.24 per diluted share in the same quarter in the prior year. The increase in net income includes an unrealized gain of $19.8 million net of tax for our investment in Medically Home. As Jim mentioned, we are focused on growing and serving clients who are establishing acute care delivered in the home via our exclusive partnership with Medically Home.

Our effective income tax rate in the first quarter of 2022 was 29.6% compared to 22.1% 1 year ago. Our effective tax rate for Q1 of 2022 was less favorable than the statutory rate, inclusive of state income taxes, primarily due to tax expense related to nondeductible losses on our investments used to fund our deferred compensation liability and certain nondeductible expense items. Adjusted EBITDA was $22.1 million in Q1 2022 or 8.5% of revenues, compared to $16.5 million in Q1 2021 or 8.1% of revenues. Adjusted non-GAAP net income was $10.3 million or $0.49 per diluted share in the first quarter of 2022, compared to $7.8 million or $0.35 per diluted share in the same period in 2021.

Now I'll make a few comments about the performance of each of our operating segments. The Healthcare segment generated 47% of total company revenues during the first quarter of 2022. This segment posted revenues of $121.9 million for the first quarter of 2022, up $25.9 million or 27% from the first quarter of 2021.

Revenues for the first quarter of 2022 included $600,000 from our acquisition of Perception Health. The increase in revenue in the quarter reflects strong demand across our consulting and managed services and digital capabilities within the segment. Our consulting and managed services capability within Healthcare grew by 25% year-over-year during the first quarter, primarily reflecting increased demand for our performance improvement offerings. Our digital capability in Healthcare grew by 31%, reflecting increased demand for our EHR and ERP offerings.

Operating income margin for Healthcare was 23% for Q1 2022 compared to 24.8% for the same quarter in 2021. The quarter-over-quarter decrease in margin percentage was primarily attributable to increase salaries and wages for our revenue-generating professionals, inclusive of higher performance bonuses, reflective of our full year expectations. As a reminder, our first quarter results also included the annual resetting of our wage basis for certain fringe items like the employer portion of FICA taxes and our 401(k) match.

The Education segment generated 31% of total company revenues during the first quarter of 2022. The segment posted record revenues of $80.7 million in Q1 2022, up $29.3 million or 57.1% from the first quarter of 2021. Revenues in the first quarter of 2022 included $2.3 million from our acquisition of Whiteboard. The increase in revenue reflects the continued strong demand for all of our offerings across the segment. The continued demand for our offerings is further demonstrated by the Education segment's 20% sequential growth in the first quarter of 2022 over the record fourth quarter of 2021.

The operating income margin for Education was 17.7% for Q1 2022 compared to 16.6% for the same quarter in 2021. The quarter-over-quarter increase in margin was primarily due to revenue growth that outpaced increases in payroll costs, partially offset by an increase in contractor expenses as a percentage of revenues.

The Commercial segment generated 22% of total company revenues during the first quarter of 2022. The segment posted revenues of $57.5 million in Q1 2022, up $1.6 million or 2.9% from the first quarter of 2021. Revenues for the first quarter of 2022 included $1 million of inorganic contributions from our acquisitions of Unico Solution and AIMDATA. The increase in revenues reflects strengthened demand for our digital offerings, partially offset by a decrease in revenues due to the divestiture of our Life Sciences business, which generated $4.7 million in the first quarter of 2021. Our digital offerings in the commercial markets grew 23% in the first quarter of 2022 as compared to the same period a year ago.

Operating income margin for the Commercial segment was 21.2% for Q1 2022 compared to 17.6% for the same quarter in 2021. The quarter-over-quarter increase in margin was primarily due to the decrease in expenses driven by the divestiture of our Life Sciences business, partially offset by increases in contractor expenses and payroll cost for our support personnel as a percentage of revenues.

Let me provide some additional color on our capabilities before I turn to other corporate expenses. Our Consulting and Managed Services and digital capabilities both achieved a strong growth in the first quarter. On a full year basis, we expect the Consulting and Managed Services capability to generate operating income margin in the upper 20% range and the digital capability to generate operating margin in the high-teen percentage range.

Turning to corporate expenses. Corporate expenses not allocated at the segment level were $33.5 million in Q1 2022 compared with $28.9 million in Q1 2021. Unallocated corporate expenses in the first quarter of 2022 included a $2.6 million reduction of expense related to the decrease in liability to participants in our deferred compensation plan, which is fully offset by the corresponding loss and other income related to the decrease in value of the assets used to fund that plan.

Conversely, unallocated corporate expenses in the first quarter of 2021 reflected an increase of expense of $800,000 related to the deferred compensation plan. Absent the impact of our deferred compensation plan in both periods, the $8 million increase in unallocated corporate expenses are primarily due to an increase in payroll costs, including increases in salary and related expenses, performance bonus expense and share-based compensation expense for our support personnel. The overall increase in unallocated corporate expenses also includes an increase in nonpayroll costs, primarily for legal fees and software and data hosting costs. We expect our quarterly run rate for corporate expenses to be in the low to mid-$30 million range for the remainder of the year.

Now turning to the balance sheet and cash flows. DSO came in at 75 days from the first quarter of 2022 compared to 69 days for the fourth quarter of 2021 and 64 days for the first quarter of 2021. We continue to expect DSO to normalize to between 60 and 65 days in 2022 as we collect in several large projects that have contractual payment schedules extending into the second and third quarters of the year.

We finished the quarter with borrowings on our revolving credit facility of $335 million and with cash of $10 million, for net debt of $325 million. This was a $113 million increase compared to Q4 2021 as the first quarter reflects the payment of our annual bonuses. The first quarter also included $24.1 million of share repurchases or approximately 527,000 shares under our current authorization of up to $200 million, of which $106 million in repurchases were made available as of March 31, 2022.

Despite the significant outflows for annual bonus payments and share repurchases, our leverage ratio, as defined in our senior bank agreement, was approximately 2.2x adjusted EBITDA as of March 31, 2022, compared to 2.6x adjusted EBITDA at the end of Q1 2021. Cash flow used in operations in the first quarter of 2022 was $79 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 negative $85 million.

Finally, let me turn to our expectations and guidance for 2022. As Jim noted, we are raising and narrowing our full year 2022 revenue guidance to $1 billion to $1.05 billion. The increase in our revenue guidance primarily reflects the strong momentum across our business and the significant growth opportunities in each of our core industries. In addition, we are reaffirming our full year adjusted EBITDA guidance to be in a range of 11.25% to 12.25% of revenues, and we're increasing our full year adjusted non-GAAP diluted earnings per share guidance to be in a range of $3 to $3.40.

Finally, we continue to expect our full year effective tax rate to be in the range of 28% to 30%. We continue to expect to deploy our free cash flow consistent with the guidelines shared in our Investor Day presentation, with 25% to 50% directed towards share repurchases and 50% to 75% towards debt paydown or tuck-in M&A.

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

QUESTIONS AND ANSWERS

Operator

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

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

This is Jasper Bibb on for Tobey. 1Q was a much stronger start of the year than the prior expectation for a back half-weighted guide. I just wanted to ask, did you see growth accelerate later in the quarter? And is there anything to call out as far as new large projects or success fees?

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

I can take that one, Jasper. I think the growth was fairly steady over the course of the quarter. There were no onetime big fees or anything like that. I'd say in the normal course of our business, we're always signing new projects and some of them are larger in size, but I'd say that's kind of a normal thing.

But in terms of the first quarter, I think it was a demand that we saw strengthening as the quarter progressed and as a result of just good balance really across the different industries as well as the capabilities including a good mix of projects, including some which were larger size, but nothing kind of unusual during the quarter that led to the larger revenue number other than just solid demand.

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

Okay. And then how should we think about the cadence of utilization rates that's assumed in the updated guidance? Do you still think you could get to that historical 75%, 76% range by the end of this year?

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

We do. We do think that. You can tell when you look at our headcount stats, Jasper, we've been in a mode where we've been hiring a lot of people. That was the back half of last year into the first quarter this year, and we've been hiring that talent to meet the demand that we see in the market. But naturally, there is a little bit of a ramp with that talent to get them fully up and utilized in our projects. So I think you saw some of that drag on the metrics during the first quarter. But certainly, as the year progresses, our expectation is that metric is going to tighten up and that we'll be able to get back to those historical levels.

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

Okay. And then I just want to ask about new bookings activity. How does the pipeline look today? And maybe you could contrast that for us versus how things looked at the start of the year when your customers were dealing with a bit more uncertainty related to COVID?

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

Jasper, this is Jim. As John indicated, we've had a pretty steady progression of demand that's kind of picked up as the year progressed. And so I think that's really what we're kind of up against. There's really no big flash points for us at this point in time. It's just -- it has really just been very steady demand. And I think we're seeing it really across all of our segments, as we indicated.

And we feel pretty good about the way the year is beginning to look at this point in time as well. I mean we're always going to be a little bit cautious about looking too far in the future, given everything that's going on in the world. But at this stage, we feel pretty good about the way things are demanding. And again, I think it's the fact that we're seeing it across really almost of our service lines and all of our businesses, that gives us some confidence that this is going to be a good indication of some solid demand into the future as well.

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

Yes, I agree with that, Jim. I've said quantitatively, we're pleased with the growth during the first quarter. We're pleased with the guiding growth for 2022. And the thing that gives us a lot of confidence is when we look at that pipeline and we look at the backlog, we're at or above our historical coverage ratios across most of the business at this time of the year. So that gives us confidence about the trend line that we've been able to project in the guidance for the year.

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

Last one for me. Some of the other professional services firms have described kind of in-year compensation adjustments as they try to keep pace with wage inflation. Have you seen that at all so far this year? Or do you think you are where you need to be from a wage perspective to stick to requisite talent?

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

From a wage perspective, Jasper, we've been monitoring that very closely going all the way back now really to the first half of last year. And so we've been proactive along those lines along the way up to this point. So we feel good that we've made adjustments along the way and that we're very competitive from a pay perspective.

And the rate compensation levels that we're at right now, they're all baked into the guidance that we've had out there, and there's really no change in that at this point versus the initial outlook that we gave in February. So we feel good that we've been making those adjustments as we've been going along and that those adjustments are reflected in the guide.

Operator

Our next question comes from Andrew Nicholas of William Blair.

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

First question I had was just actually combining some of Jasper's questions there. In terms of the hiring environment, it sounds like you're competitive on the wage front, so no concerns there, but was attrition kind of normalizing in the quarter, at least relative to some elevated levels for the industry, I think, as a whole last year? And just overall thoughts on kind of hitting hiring targets this year given what seems to be a really, really constructive backdrop for demand and seemingly a ton of work to do. Just wondering how confident you are in your ability to staff those projects appropriately?

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

Andrew, this is Jim. I'll take a shot at answering that. First of all, I think in terms of the retention, we saw -- we obviously had a lot of -- we had through most of the pandemic, at least through the first half of, say, '21, we had lower than normal attrition. And then in the last part of 2021, the early part of 2022, we had -- well, actually the last part of 2021, we had higher-than-normal attrition. Things seem to have steadied right now for us where we're kind of seem to be, year-to-date, they seem to be holding at attrition rates that were consistent with the way we looked prior to the pandemic. So we feel like we're kind of, that along with the compensation commentary that John said where we made some adjustments, we feel pretty good about that. So from a turnover perspective, I think we're feeling that things are kind of now settling in a little bit better at levels that we're historically used to.

The ability to hire is -- we're having some challenges in the sense that our demand and supply is a little bit out of whack right now, where we do expect our utilization numbers to go up. But we have been, as John indicated, we've been hiring of people.

We also have a very strong demand right now. So our hiring focus right now is -- our hiring efforts are going full speed ahead in almost all of our businesses. And we are -- like we -- for many years, we've had a really good culture to build into. We feel like we've got some really good momentum. So that all helps. But we have a pretty strong demand right now. So it's -- we're kind of trying to balance this out a little bit by being aggressive on the recruiting front, but at the same time, trying to get back to our historical utilization.

Like we feel comfortable in the metrics that we've laid out in our guidance. And I think it's just -- we've spent a lot of time talking about recruiting and we've spent a lot of time talking about getting those people we've recruited up and going on the existing projects. So it's going to be a little bit of a challenge, I think, for a while just because it's a tough environment, but we seem to be managing through it very well, and really our businesses have been so readily deploying people and getting them trained and ready to go. So we feel good about that, but it's a lot of work right now, just particularly given the demand we have gone on.

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

Great. That's really helpful. And then for my follow-up, I just wanted to hone in on Q1 results a little bit further. Obviously, really, really strong growth, loose kind of extrapolating over the course of the next couple of quarters, if that is the case.

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

Andrew, it's John. I would say it was modestly better than our expectations going into the year. We felt good at the beginning of the year about our backlog and our pipeline and the comments we are getting from clients out in the market. So we felt good about our trajectory, a little bit better as we now start to move towards the remainder of the year. We're [in the ray] that we gave in guidance, though mathematically, we're basically calling for the back 9 months of this year versus the back 9 months of 2021 to be up overall, the midpoint of roughly 10%, around 10% and the 3rd quarter, so the next couple of quarters.

And then we were a little bit more cautious on the fourth quarter, primarily just because it was a very strong fourth quarter last year. So it's a little bit of a tougher comp. But also it's just so early in the year. And typically, we wouldn't be raising guidance this early, but we felt like we were able to do so based on the strength of the first quarter. But given that it's still only early May, we still have the remaining 9 months of the year.

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

And Andrew, this is Jim. I'll just add to what John said, and that is, yes, we were a little bit surprised. It's interesting because the demand can be quantified, to a large extent. The part that we try to focus on, though, is what's causing the demand. And I think the answer to that question is probably the most important thing because that's what gives us comfort as to where things are going in the future.

And we saw the last year has been really tough for providers for some of the reasons I outlined in my script early on. And in education, some of the same thing. I think there are both those 2 businesses -- those 2 industries went through a tremendous amount of challenges during the pandemic, and we saw that once the pandemic began to ease, we saw the demand for our services growing much quicker.

So it's a very significant kind of front to center on so many of our clients right now, and that's what's driving our demand. So we're not that surprised at the reasons for it. But we anticipated a solid growth this year, and we kind of predicted that earlier on. But I think even the levels we saw in Q1 probably surprised us a little bit. And we do feel pretty good about the way things are evolving for the rest (technical difficulty)

Operator

(technical difficulty) comes from Bill Sutherland of Benchmark Company.

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

Well, guys, the growth in Education, of course, was particularly outsized. And I'm curious if there were any mix changes that kind of were part of the (technical difficulty)

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

The mix, it was really strong, Bill, across the entire segment, which was the trend line that we saw exiting last year. I guess the comment I'd make is if you go back to 2021, one of the things that we discussed was really starting even the second -- so early in the second quarter last year, but certainly in the third and fourth quarter, really the commentary was we feel really good about the growth that's coming in digital based on what we see in the market based on deals we had closed that we knew we're going to be ramping up.

But I'd say you are seeing that effect now, which is something that we forecasted would happen, which would be you still have very strong demand in the research and strategy parts of the business. But now you are starting to get that run rate came where we were able to close last year on what's now a much more robust environment from a digital perspective.

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

And is the -- in Healthcare and Education, are the deal sizes any change that's noticeable there, or pretty much the same?

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

I think they're pretty much the same. There's nothing -- not also -- this is a mix of small-sized jobs, medium-sized jobs, and there are some larger ones too in both of those segments.

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

And since full year guidance does imply kind of a sequentially flat rest of the year, does that mean -- I'm assuming that you can -- that's why you're thinking you should see some utilization benefit going forward.

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

Yes. I mean from our perspective, Bill, we certainly are hopeful that at the end of the year, we're looking back and that we were up towards the upper end of the range versus the midpoint. But I think at this point, given how early it is, it makes sense for us to -- here's versus last year, and then we'll probably just be a little bit cautious on the fourth quarter. But our hope is, based on the demand trend lines that we see in the market that, that fills in as the year goes on and that we're able to trend towards the upper half of the range versus just at the midpoint.

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

Okay.

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

Okay. Maybe put it a different way, though. I guess not in a different way, but just -- I think we want to just kind of balance the 2 of them and not get too carried away at the asset. So we feel -- we reiterate that we feel really good about the demand. We just wanted to be a little bit cautious about all these kind of external events and just not assume that we're not going to have [huge] impact on anything.

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

Sure. And the last one, I was just kind of interested in kind of the status of the -- or kind of the profile and I forget it, you got into it on the Investor Day. Should have gone back and looked.

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

Yes. We're at different stages. We had our first engagement in this area. We really -- we started doing right when COVID hit and that was in March or actually April of 2020. I think probably right now, my guess is one way we should have performed, helping them develop this. And each system goes at their own pace. So want to be very aggressive with a large number of virtual beds, Others are more conservative as they kind of see what their market is going to look like and how it fits in with their operations. But we have a growing business in that area and in the whole concept of hospital, we feel pretty good about the way that's going as well.

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

And are you all just curiously classifying it in terms of 2 groups, consulting or digital?

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

Likely home, work, and in consulting.

Operator

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

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

Just wondering, as we look at the increased revenue guidance, if there's any meaningful change we should think about at all?

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

Yes, Kevin, I think the way I would think about it is at this point, we expect the Healthcare segment to be low double-digit growth for the full year. We expect the Education segment to be low 20% range for the full year. And then probably similar expectations to what we had as of the February call for the commercial business and the...

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

I still -- I know it's still kind of early on with regard to the operating model changes that you discussed on your last call and at the Investor Day, but is there anything you're seeing in how the business is operating now that you can tie to maybe a strengthening in the business (inaudible) just so maybe we can point to some tangible evidence of how those operating model changes are benefiting your company?

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

Kevin, it's Mark. I think it's -- when you look at the demand in the current quarter, I would say it's largely unrelated to the operating model because we really just launched it. But just keep in mind, too, we have really been working collaboratively in our business for many, many years. And so that really predates the operating model. And so in some respects, it isn't surprising that we're getting good results from it, but I wouldn't maybe directly attribute it. I do think from an operations point of view, it's really now launched and wide and doing well.

For say, like a global capability as an example, we surpassed 1,000 employees in India in the quarter, which was a milestone for us, and I think we shared we started with, perhaps in 2015, 30 or 40. So it's grown dramatically and continues to be an important part of our future. Our Global Products team, which is about 400 employees, we've been accelerating development in some of our largest differentiated software products. And so that's all going in the right direction.

And then Global Analytics team is focused on driving data insights and innovation. So I think we're just really getting started on what we would think are the significant opportunities for continued growth and margin expansion and really for our people, too, with just broader opportunities for growth and development. So overall, we feel like it's all on a very good track right now.

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

Kevin, this is Jim. I would totally agree with Mark. And in fact, I would also add, I mean, you're right. We can't -- I don't know that we can specifically outline, have to attribute revenues to this other than to say that the fundamental things we wanted to accomplish was really to be in a much better position to bring our collective set of capabilities together to our clients and not do it in the kind of the more structured silos that we had prior to this.

And I think it's working really well. I mean these are kind of qualitative observations, but we've seen so many more people coming to working together across boundaries that really didn't happen as often before, and people are excited about it. I think frankly, even just having people see from the first time recording -- showing our first quarter results into the new reporting segment in real time, I think really gets people to understand this is how -- this is really going to help to see them grow, how the initiatives are going to grow, how the capabilities are going to grow. I think it's been very meaningful.

So I have been -- I mean it certainly it's not the easiest thing in the world to do, and it's not going to work out some issues, but I think it is going -- from my end, it's going very well. And I think it's going to continue to be one of the things that's going to enable us to achieve our goals in the intermediate and long term. I feel really good about the way it's gotten out of the box.

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

Okay. And I guess lastly, I wanted to ask about the challenges that you talked about your health care clients facing with labor cost pressures and reliance on outside staffing firms and the like. I mean is there anything you can do specifically to help them address those challenges or that you're kind of mixing into your offerings as you approach them?

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

Well, Kevin, I think there's a lot that we can do. I mean the problem, as always, and it certainly is true in health care now, but frankly, it's true in a lot of other places that you bump up against, they've got their own financial objectives that they're trying to get at. And as you just go back and try to achieve those financial objectives, you bump up against kind of cultural issues that they have about what kind of organization it is.

And so I think it's just kind of from a -- we help them not just identify ways to narrow the gap between the increase in costs and the revenues that are coming in at a much lower pace. We're trying to close that gap. We're trying to find ways that will be culturally acceptable and operationally acceptable. And a lot of what we do is we do that through technology in some part, but we also have them strategically go back and kind of look at everything that they're doing and trying to figure out, can we keep doing the same things in the same way.

So it's a block-by-block evaluation, but -- and it's not easy. I think one of the things that's really come across hard is that -- I mean we've talked about some of these challenges even pre-pandemic. And then pandemic hit and you had like this whipsaw where you had a ton of COVID-related costs come on early, and then you have some COVID relief coming in. But now I think the biggest issue that they're facing, as I indicated, was they just have a compensation base that's rising much, much faster than reimbursement trends, and that has everyone concerned because there are no easy answers for that. And that's why -- that's one of the reasons driving our demand right now.

Operator

Seeing no more questions in the queue, I'd like to turn the call back over to Mr. Roth.

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

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

Operator

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