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HURN - Q2 2014 Huron Consulting Group Inc Earnings 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 second quarter 2014. At this time, all conference call lines are on a listen-only mode. Later, we will conduct our question-and-answer session for conference call participants, and instructions will follow at that time. 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 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. - President, CEO*

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

The second quarter of 2014 was another strong quarter for our Company. Huron's revenue grew nearly 23% compared to the same quarter last year, and 13% organically. Year to date, our revenue has grown over 25% and nearly 18% organically. A combination of vibrant markets and very talented, collaborative people has enabled this performance, and we remain well positioned for future success during the remainder of the year. I will now provide some color on each of the segments and the primary drivers in our core markets, and then I will turn it over to Mark so he can walk you through the financials.

Huron healthcare turned in another solid quarter, with strong growth resulting from ongoing changes in the healthcare provider market. As we've indicated in the past, the ebb and flow of quarterly revenues in this segment are impacted by the timing and nature of some of the larger engagements we have underway. Over the past 3 to 4 years, the portfolio of engagements in the healthcare segment have tended to result in strong second-half performance, primarily due to the timing of the start and eventual completion of the array of client engagements that we had at that particular time.

Consistent with our comments earlier this year, that pattern has somewhat reversed in 2014. We had a number of larger engagements that were started in late 2012 and early 2013 that yielded strong results upon their completion in the first half of 2014. As we look into the second half of this year, we have a solid pipeline of projects in progress. We also have a healthy inventory of assessments underway which should enable us to achieve our goal of mid- to upper-single-digit organic revenue growth in 2015.

After a number of quarters where we have delivered solid results in this segment, the primary drivers in the healthcare market remain the same, yet the intensity of the pressure among our client base is increasing. Specifically, the major drivers of our healthcare business are (1) well-documented needs for hospitals to improve billing and collection, (2) market and competitive pressure to reduce costs and increase quality, (3) post-merger situations stemming from industry consolidation, where clinical and cost efficiencies have not yet been satisfactorily achieved, and (4) ongoing complexities associated with the evolving transition from fee for service to management of population health.

We feel confident about the increasing demand for our services, particularly among the academic medical centers, integrated networks, and mid-sized hospitals. Our acquisition of Vonlay during the second quarter added to the competencies that we provide to our provider clients. The Vonlay team performed well during its first 2 months under the Huron umbrella, and we have high hopes for continued growth in the future.

Our integrated healthcare team has consistently delivered value to our clients, and our reputation for exceeding client commitments is a major differentiator from a competitive perspective. Looking to the future, we believe that current industry pressures will lead to increasing demand for our services, and we are very well positioned for future growth in the healthcare segment.

Turning to our Huron legal segment, the second quarter resulted in our third consecutive quarter with revenue in excess of $50 million. We continue to have solid demand from our financial services clients, and we also benefited from M&A-related activity among our client base. The continued success of our global sales organization has provided us with increasing exposure to new clients.

Our expanding presence among large multinational corporations is attributable to four primary factors. First, the oft-mentioned proliferation of electronic information; second, the ability to help clients navigate through regulatory or litigation discovery-related needs in a cost-effective manner, based on our innovative market offerings, including our integrated analytics offering; third, our reputation for managing large amounts of data with a high degree of accuracy and under extreme time pressures; and finally, an ability to meet stringent industry data security requirements, which is a critical factor to our large global clients.

The consulting practice within Huron legal also had another strong quarter. Our consulting services are helping corporate law departments with large legal spend to improve their efficiency and effectiveness. The complexity of the corporate law department environment continues to grow, and we believe that our e-discovery and consulting services are well positioned for growth in an expanding market.

The education and life sciences segment, also known as ELS, reported a relatively flat quarter. The technology practice within ELS had another strong quarter, with a number of large wins at clients that are looking for transformational change by implementing new technology into their administrative and operational units. This part of the ELS practice has been the best performer for the past year within this segment, and we expect that it will continue its solid performance throughout the rest of the year.

In our life sciences practice, the Frankel Group turned in a solid performance in the quarter and continues to integrate well with our legacy compliance-focused practice. The pharmaceutical and medical device manufacturer markets are going through significant change, including some well-publicized mergers. This consolidation activity will provide some new opportunities for the life sciences practice, and we are hopeful that the second half of the year will show improvement as the industry goes through some major changes.

Our strategy and operations practice within the ELS segment continued to be soft, due primarily to a lack of large projects that have historically occurred within this practice. Our pipeline of opportunities in this practice is strong, and we will remain patient, given the complexity of change taking place within the higher education industry. We have learned that change comes more slowly within this industry, but we expect the market to become more active in the second half of the year, and we will be well prepared, with a team of experienced and incredibly competent individuals.

As I indicated last quarter, I believe it is only a matter of time before we see a better complement of utilization and margins in this business. There's no question that the challenges among our client base continue to grow more acute, and we are well positioned from a leadership and talent perspective, giving me confidence that this practice will perform better during the coming quarters.

Finally, our business advisory segment had a strong quarter, with solid contributions from our legacy advisory practice and the enterprise performance management, or EPM, practice, which was acquired as Blue Stone International last October.

Our legacy Huron business advisory practice, which provides operational and turnaround services to troubled companies, turned in a solid quarter, particularly in light of a challenging comparison to second quarter to last year. The opportunities for our services in the middle market are expanding, given the difficult economic environment in some industries and the uneven recovery in the broader economy. The addition for our recently announced broker-dealer license should enhance our service offerings within the segment, enabling us to participate in financing transactions in a more meaningful way than we have in the past.

Our EPM practice continued to perform well, exposing Huron to domestic and international clients that we have historically not served. As I mentioned last quarter, this team's collaboration among the various Huron practices bodes well for continued growth in our EPM business.

Let me now turn my attention to our 2014 guidance. As our press release indicates, we are increasing our annual revenue guidance to $805 million to $825 million. This increase in guidance reflects the strong momentum that we built in the first half of the year and our expectations for favorable market conditions for the remainder of the year.

Strength in our healthcare practice is certainly contributing to our increased guidance. Our mix of engagements in healthcare is slightly more skewed towards fixed-price agreements this year than we had originally anticipated. And given our current estimates of timing for performance-based fees from our contingent revenue clients, we are lowering our performance-based fee guidance to $85 million to $95 million, while anticipating higher run rate revenue from our current healthcare clients.

While we won't be providing 2015 guidance until February, it is my expectation that we will continue to achieve mid- to upper-single-digit revenue growth in 2015, consistent with our previously disclosed expectations for this Company.

Now let me turn it over to Mark for a more detailed discussion of our first-quarter results, including our revised EPS guidance. Mark?

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

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

Also, as previously announced during the second quarter of 2014, we completed our acquisition of Vonlay, a healthcare technology firm that implements and optimizes clinical, administrative, and financial systems. The transaction closed effective May 5, and its financial results since that date are included in our Huron healthcare segment.

Now I'll walk through some of the key financial results for the quarter. Revenues for the second quarter of 2014 were $209.4 million, up almost 23% from $170.4 million in the same quarter of 2013. Revenues for the second quarter of 2014 reflect our acquisitions of Blue Stone, the Frankel Group, and Vonlay, which in the aggregate, generated $16.5 million of revenues.

Operating income increased more than 11%, to $34 million in Q2 of 2014, compared to $30.5 million in Q2 2013. Adjusted EBITDA, which excludes a number of items that are listed in our press release, was $42.2 million in Q2 of 2014, or 20.1% of revenues, compared to $36.7 million in Q2 2013, or 21.5% of revenues. Net income from continuing operations was $19.9 million, or $0.86 per diluted share, in the second quarter of 2014, compared to $15.8 million, or $0.69 per diluted share, in the same quarter last year. Adjusted non-GAAP net income from continuing operations was $22 million, or $0.95 per diluted share, in the second quarter of 2014 compared to $17 million, or $0.75 per diluted share, in the same period of 2013.

Our effective income tax rate in the second quarter of 2014 was 38.9% compared to 44.9% a year ago. The effective tax rate for Q2 of last year was higher than the statutory rate, due primarily to the impact of foreign losses with no tax benefit. Foreign losses in Q2 of 2014 had no impact on the Company's effective tax rate, primarily due to the check-the-box election we made in the first quarter of this year. On a full-year basis, we anticipate our 2014 effective tax to be approximately 32%, inclusive of the one-time tax benefit resulting from the check-the-box election. On a normalized basis, excluding the non-recurring tax benefit, we expect our effective tax rate to be approximately 41.5%.

Now let's look at how each of our operating segments performed during the quarter. The Huron healthcare segment posted revenues of $101 million for the second quarter of 2014, up $22 million, or nearly 28%, over the second quarter of 2013. Revenues for the second quarter of 2014 included $5.1 million from our recent acquisition of Vonlay. Performance-based fees in Q2 of 2014 were $19.8 million compared with $18 million in the same quarter last year. On a year-to-date basis, performance-based fees totaled $51 million in 2014 compared to $36 million in 2013.

While we are pleased that our Huron healthcare segment had another strong quarter, we expect some moderation in the second half of 2014, as performance-based fees are likely to be greater in the first half of 2014 than in the second half. And as Jim mentioned, we're lowering our 2014 performance-based fee guidance to a range of $85 million to $95 million, but expect higher non-performance-based revenue. As we've said on many occasions, the timing of performance-based fees can vary significantly. They are not driven by a seasonal pattern, but rather the mix of engagements at any point in time.

The operating income margin for Huron healthcare was 38.1% for Q2 2014 compared to 37.4% for the same quarter in 2013. The increase in margin was due to lower salaries and related expenses as a percentage of revenues, partially offset by an increase in bonus, technology, and contractor expense, as well as intangible assets amortization resulting from our acquisition of Vonlay.

As many of you know, in the interim quarters, we record bonus expense corresponding to the midpoint of the annual guidance range. Since we're raising our guidance range this quarter, we are also increasing our bonus accruals.

Our Huron legal segment continued its momentum from recent quarters and posted revenues of $53.3 million in Q2 2014, up $8.2 million, or over 18%, from the second quarter of 2013. The increase in revenue was attributable to an increase in demand for our discovery services, resulting in higher utilization of our discovery centers. Utilization within our consulting practice also saw an increase, from 60% in Q2 of last year to 68% in Q2 of this year.

The operating income margin for our Huron legal segment was 29.6% in the second quarter of 2014 compared to 23.9% in the same quarter of 2013. The increase in the segment's margin was primarily due to a favorable mix of engagements, lower salaries and related expenses as a percentage of revenues, as well as lower technology and rent expenses. Again, this was partially offset by an increase in bonus accruals.

The Huron education and life sciences segment posted revenues of $37.7 million for the second quarter of 2014 and includes $4.2 million from the Frankel Group, which was acquired at the beginning of 2014. Revenues for the second quarter of 2013 were $37.1 million. Sequentially, revenues improved 12.4% compared with $33.6 million in Q1 of 2014. The operating income margin for Huron education and life sciences was 30.8% for Q2 2014 compared to 31.1% for the same quarter in 2013.

The Huron business advisory segment posted revenues of $16.6 million for the second quarter of 2014 and includes $7.2 million from our EPM practice, which we acquired in Q4 of last year. Excluding EPM, revenues for the second quarter of 2014 were $9.4 million compared to $9.3 million for the same period last year.

The operating income margin for the Huron business advisory segment was 30.9% for Q2 2014 compared to 42.7% for the same quarter in 2013. The decrease in this segment's operating margin is reflective of the combination of our EPM business, which has a lower margin profile, into our legacy financial advisory business. On a combined basis, the decrease was attributable to an increase in salaries, bonuses, and related expenses, as well as increases in contractor expense, marketing expense, and intangible asset amortization.

Other corporate expenses not allocated at the segment level were $30.2 million in Q2 2014 compared with $20.1 million in Q2 of 2013. The increase is primarily attributable to higher bonus expense related to higher projected funding levels associated with the increase in the guidance range. In addition, salaries and related expenses increased along with other general corporate expenses and the $1 million restructuring charge related to the consolidation of office space at three locations.

Now turning to the balance sheet and cash flows, cash flow from operations for the second quarter was $21.4 million, and our net debt position increased $29 million compared to the end of the first quarter. For the first time since Q1 of last year, we ended the quarter with borrowings under our revolver. We experienced slower cash collections temporarily, as DSO came in at 84 days. Also during the second quarter, we spent over $43 million to fund our acquisition of Vonlay and to repurchase shares.

Now turning to guidance, with the first half of the year behind us and more visibility into the second half, we are raising and narrowing our guidance range, which includes our recent acquisition of Vonlay. For full year 2014, we now anticipate revenues before reimbursable expenses in a range of $805 million to $825 million. Embedded in our guidance range are expected performance-based fees in the range of $85 million to $95 million, adjusted EBITDA in a range of $152.5 million to $158.5 million, net income in a range of $79 million to $82.5 million, and adjusted non-GAAP net income in a range of $75.5 million to $79 million, GAAP EPS between $3.40 to $3.55, and adjusted non-GAAP EPS in a range of $3.25 to $3.40. And finally, with respect to taxes, as I mentioned earlier, you should assume an effective tax rate of approximately 32% for 2014, or approximately 41.5%, excluding the one-time tax benefit.

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

And with that, now we'd like to open up the call to questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions.) Timothy McHugh, William Blair.

Timothy McHugh - *William Blair & Co. - Analyst*

This first question, just relative to the 2Q results here, which I guess already reflects a little bit lower run rate for the contingent fees in the healthcare business, the guidance for the second half of the year assumes a lower run rate in revenue, even at the high end of the guidance range. So can you talk at all about what, as you look to the second half of the year, you're not expecting to continue, or parts of the business that you wouldn't expect to perform quite as high as you saw in the first half of the year?

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

Tim, this is Jim. I guess I'd answer that in a couple of ways. We grew at a pretty quick pace in the first half of the year, way more so than we had anticipated. And we have seen, as I said earlier in my call, we've seen a pattern of -- our healthcare practice still has a relatively small number of large engagements, and so you're going to see this ebb and flow. We've typically had that in the second -- we've had a stronger second half historically. This is really for us just a reflection of the pattern of engagements in terms of when they were started and when they're ending. And I think if you evened it out, you would find a much more natural pattern that would be well above, still, what we were expecting.

The fact that the second half will be less than the first half doesn't at all, in our mind, reflect any anticipation that we're going to see a drop-off in activity. In fact, things are looking good for the future. It's just really just a pattern of the jobs we have right now in terms of when they're coming through.

And the other part is we still have, as I said, we did bring down a little bit, by $5 million or so, our guidance for the performance-based fees. Those are things that could occur in the fourth quarter; they could occur in the first quarter. We're being just cautious in terms of how we project those things. So I'm not sure if that answers your question, other than to say there's really no pattern here to be followed, other than the fact that right now, it's just a sense of where we're at right now in the projects that we have.

Timothy McHugh - *William Blair & Co. - Analyst*

Okay. And then on the shift towards more fixed fees on the healthcare side, what do you attribute that to? In any way, does the success you've had on prior engagements make people afraid to enter into more of the contingent arrangements? What's behind that?

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

No, Tim, again, I don't think there's anything behind that at all. We've seen that fluctuate also over the years, and we're probably at a slightly low point. The only thing I'll say is that we have mentioned on a number of occasions that over time, we expect our contingent revenue as a percentage of our total healthcare revenue to begin to drop as our clinical practice continues to grow. And so that certainly is a part of that. But I think there's really nothing more than that. There's no pattern or no sense that we're getting any less contingent or performance-based fee projects in the future. It's just the pattern of the projects we have right now and their preference.

Timothy McHugh - *William Blair & Co. - Analyst*

Okay. And then lastly, from a margin perspective, what really surprised relative to my model this quarter was the margins outside of healthcare, the other segments, which all were pretty close on a segment margin basis, towards 30%, which I think is where you've talked about wanting to get towards with each of those other segments. And it doesn't seem you're assuming you're going to stay there in the second half. But can you talk about how sustainable that sort of improvement is in these segments? Or are there factors that are going to take back some of that margin improvement from Q2?

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

Tim, this is Mark. I think, generally speaking, you had some things that helped Q2 a little bit in terms of just favorable mix. We mentioned that a little bit in the legal segment. I think that, largely speaking, the margins are going to continue to trend on a positive bias from where we've been in the last couple of quarters. And we've talked about the areas that we wanted to see some improvement, namely in legal, also in the ELS practice. So you saw some uptick in utilization in both of those segments, and then also, just in terms of our discovery center utilization.

So I think to the extent that we're aiming toward the 30% range as an aspiration, we'd love to be able to sustain them there, but I think we're going to continue to see improvement, but perhaps not exactly at the same level.

Timothy McHugh - *William Blair & Co. - Analyst*

Okay. Thank you.

Operator

Paul Ginocchio, Deutsche Bank.

Paul Ginocchio - *Deutsche Bank - Analyst*

Just looking at the headcount reductions, Q-on-Q, in education, is that now the right level? And could you talk about maybe the types of people that either departed or the headcount cuts? Were they senior, junior? And is this the level that you can get utilization back up to more normal levels? Thanks.

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

Paul, this is Jim. We're always, in all of our practices, we're always balancing. Even when the practices are strong, we've always made it a habit of when the practices are strong or when the practices are a little bit less than strong, we're always making some adjustments. There was no specific pattern or any major program. It was really just across the board, as people will leave for various reasons. So there's really nothing special there, and I think there's nothing in terms of being all senior or all junior. It's just a mix.

Paul Ginocchio - *Deutsche Bank - Analyst*

Okay. I think you said earlier on the call that it's going to get back to its normal growth. There's nothing -- it's maybe just a timing issue. But taking heads out would make me think it maybe is going to last longer than that. Is that the wrong read?

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

Yes, I think so. The way I respond to that is that being in the market, as I am quite a bit, there's nothing about what's happening in the market that would tell me that we should be doing anything but growing in the future. And I think that's where our head's at right now. You're always going to make midcourse adjustments. We do that in every one of our practices all the time. There's still a lot going on, and I think it's going to be a lot going on in this practice and in the industry for a long period of time. So we have expectations for growth, and I'm very confident that's where we're going to be.

Paul Ginocchio - *Deutsche Bank - Analyst*

Then just a final follow-up. I think you said, for 2015, mid-single-digit growth. Maybe I missed it, but looking at your contingent fees, is the outlook that they would grow from your revised guidance this year or in line with revenue? Or will there be something -- I know it's difficult to look at so far in the future, but is there anything unusual about contingent fees next year that you can see?

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

No, Paul. I'd say it's too early to really give you any kind of indication one way or the other. I'd say it will be something that we'll talk about when we see what, as best we can as of the time we give guidance, what the mix of engagements looks like. But in the market, we're not seeing anything that is a shift in preference one way or the other that's outside of ranges that we have not seen in the past. We've definitely seen this kind of movement between fixed and contingent. It's really not indicative of anything that's to come.

Paul Ginocchio - *Deutsche Bank - Analyst*

Great. Thanks.

Operator

Tobey Sommer, SunTrust.

Frank Atkins - *SunTrust Robinson Humphrey - Analyst*

Hi, this is Frank in for Tobey. I wanted to ask about the healthcare segment. Can you give us a sense for the impact of Vonlay on headcount, bill rate, and utilization and what it may have been on a more organic basis?

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

Frank, this is Mark. So we're not really breaking out from a bill rate and some of the other metrics. But I think from a headcount perspective, I think it's fair to say that if you took Vonlay out of our Q2 numbers, the headcount in the quarter would have been more flattish in healthcare. And I think, just as a follow-up to that, let me just say our expectation is still to end the year somewhere in the high single digits, 10% type headcount growth rate, excluding the impact of Vonway.

Frank Atkins - *SunTrust Robinson Humphrey - Analyst*

Okay. And utilization was strong in the quarter. Any particular reason there? What is your visibility, going forward, in that metric?

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

The utilization, as always, it ebbs and flows a little bit. This is a little bit stronger than the first quarter. Again, it's just largely just a reflection of the projects that we have and the pace that they're going at right now. I think we have operated the healthcare utilization, certainly in the last 12 -- well, the last 4 quarters, maybe the last 5 quarters -- a bit higher than we'd like it. I think we still aim to have our optimal utilization company-wide is likely going to be in the mid to upper 70s. And we certainly have demonstrated that we can run healthcare in the low 80s. But we get pretty hesitant when it goes much above that. I think where it's at right now is about right for where we would like to be longer term.

Frank Atkins - *SunTrust Robinson Humphrey - Analyst*

Okay. And in your prepared remarks with regards to the legal segment, you called out the impact of M&A. Can you give us a little bit of color on either the growth rate or the size and how that funnels through that segment?

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

So Frank, this is Mark. In the M&A activity, this is clearly second-request type activity, which is pretty common in this particular market. And we participate in a meaningful percentage of the transactions that happen within the marketplace. So it's really just as those larger deals come up -- they're somewhat hard to predict exactly when; they tend to be fairly intense during that period of time -- but there have been an increasing number of them this year than we've seen in the past several quarters.

Frank Atkins - *SunTrust Robinson Humphrey - Analyst*

Okay, and last one for me -- could you touch a little bit on the hiring environment and attrition?

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

Yes, our turnover continues to be close to historical levels. Picked up just a little bit, but nothing outside of the norm. It's post-bonus that we would expect to see. Our hiring will be -- we've got our campus analysts starting between now and into the third quarter, or the rest of the third quarter, at various points. So we've continued to be able to attract people within Huron at competitive salaries. And getting talent in the door has not been a problem whatsoever for us.

Frank Atkins - *SunTrust Robinson Humphrey - Analyst*

All right, great. Thank you very much.

Operator

Jerry Herman, Stifel.

Jerry Herman - *Stifel Nicolaus - Analyst*

Jim, I just wanted to start with a follow-up and a clarification on your commentary about 2015. Did you say mid- to high-single-digit growth in 2015? Is that how you frame that?

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

Yes, or mid- to upper-single-digit organic growth, yes.

Jerry Herman - *Stifel Nicolaus - Analyst*

Okay, great.

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

That's our current estimate right now. We're obviously not giving 2015 guidance yet, but as we look to the future in terms of what our markets are looking like, we believe that's something that we can accomplish.

Jerry Herman - *Stifel Nicolaus - Analyst*

Okay. And then I want to follow up on some questions about the second half of the year. Clearly, the contingency-fee business distorts that comp, or puts pressure on the comp, if you will. Could you maybe give us some sort of rank order in terms of where you see the year-over-year changes in the business? Because it obviously suggests down EPS in the second half of the year at the bottom line, and I think your contingency-fee guidance is something like $40 million versus $68 million, if you will. But maybe just tick through some of the key factors that lead to that second half negative comp.

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

The first thing I think I'd remind, Jerry, you and everyone else, is that last year in Q4, we had $45 million of contingent fees. And clearly, we had said at that time there was about $15 million of positive surprise. So that's one thing I think that you probably need to take into consideration in the comparison that, obviously, is buried within the reported numbers.

And then I think you just noted the second factor, which is at the midpoint of the range that we just estimated, you've got a pretty meaningful decline -- $51 million year to date -- at $90 million, would be $39 million at the midpoint of that range. And so those things, basically, provide a challenge in terms of the comps.

Again, when you look at how we run the Company, we really run the Company on a full-year basis. And we don't really try to have sequential -- we'd love to have sequential growth that's nice and even over time. But we do have a little bit of up and down in the business in terms of trends. But, as we said, there's nothing in the marketplace that gives us any pause for concern at this point.

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

And then this is Jim. I would just reiterate that, that I can't emphasize that enough. We really do run this Company on an annual basis. All of our planning, all of our hiring, all of it is done with annual goals in mind. That's the way our people get compensated. And so we don't necessarily -- as the year goes on, we begin to see more clearly the ebbs and flows that are going to happen quarter to quarter. But our entire thought process is around the annual results, which is entirely what we commit to and a very important part of our people's compensation.

So these types of things are going to happen. There's nothing we can do about them. As we've seen many times before, there are circumstances, often beyond our control, that can have a material swing in the performance-based fees, both in terms of timing and sometimes in terms of amount. And we just can't predict them. So we run the business the way we think we need to for an annual basis and are always pleased when we lay out annual guidance at the beginning of the year and we end up exceeding it. That certainly is our goal.

Jerry Herman - *Stifel Nicolaus - Analyst*

Just this one last question and I'll turn it over. Can you help quantify, Mark, the impact of the bonus accruals in the quarter and perhaps on a year-over-year basis?

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

Sure, Jerry. So the way to think about that -- and again, I'm going to tell you things that you could probably glean off the balance sheet in terms of the approved payroll and just looking at our cash flow statement. But cutting to the answer here, it was about $10 million of additional bonus expense in the quarter, year on year. And sequentially -- let me just double-check my numbers here; I think it was about -- you know what, Jerry? I'll come back to you in just a moment. Why don't we go to the next question?

Jerry Herman - *Stifel Nicolaus - Analyst*

Okay, that's great. Thanks very much, guys. I'll turn it over.

Operator

Randle Reece, Avondale Partners.

Randle Reece - *Avondale Partners - Analyst*

I wanted, first of all, to clarify, of the contingent-fee revenue number you gave, was that 100% healthcare?

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

Yes, that was all healthcare.

Randle Reece - *Avondale Partners - Analyst*

So the underlying consulting billing rate in healthcare is running well ahead of historical norm. If I'm to assume that's going to persist, number one, that's a significant change in modeling assumptions. But number two, I'm wondering if you're expecting this fixed-fee shift to last more than a couple of quarters.

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

Why don't you take the first one, and I'll take the second one, Mark?

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

Yes, so I think again, I think, Randy, when you look at the bill rate, there's a couple of things that go into that. One is clearly, the contingent mix affects the bill rate in the quarter. We have seen some additional efficiency when you look at, really, the productivity of the solutions that we're working on. Obviously, one of the things we're trying to do is drive efficiency into our business so that we can gain the same revenue on fewer hours, and that would show up as a little bit of an improvement in the bill rate as well.

And then I would just say you've got Vonlay, which is coming into the mix as well, which is going to have some impact on that going the other way. But it was not material, really, in terms of its impact on the quarter, just based on the size of the revenue in relation to the whole.

So I would say that getting -- we'd certainly love to see an improvement in our bill rates over time. All of that said, we're not really looking to drive higher margins in the business by improving our pricing. But if we get a little bit more flexibility in pricing from having more efficiency to be more competitive and remain competitive, that's what we're going to continue to do.

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

Right. And then I think, Randy, just in terms of the percentage of revenues coming from, or the number of projects that are coming with performance-based fees, I think we feel reasonably good about the way 2014 is going to run out in terms of our predictions, and we've shown that. I think many of the projects that we're just getting started now, and many of the assessments that we have underway right now will give us, over the next quarter or so, a much better sense in terms of 2015 in terms of whether there's going to be a mix more towards fixed-fee or contingent revenue. At this point, it's just too hard to tell.

But as we said earlier, this is entirely up to the clients. We offer both, and it's up to the clients, and they will make their own decisions, as they always do, based on all of their internal factors. So it's really hard for us to predict. I think, overall, it's been roughly, what, 33% or so? But I do think we are going to continue to see performance-based revenue, as a percentage of total revenue, continue to decline over time.

Randle Reece - *Avondale Partners - Analyst*

You've made a number of these IT acquisitions in the last few quarters. Have they in aggregate shifted any of your fundamental metrics in a meaningful way? And is there any way we should understand how that has affected comparisons?

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

Randy, this is Mark again. So first of all, on the IT acquisitions, I would say that really, Vonlay's really the only pure IT acquisition. Blue Stone is really a consulting firm that really has billable consultant hours, and its profile really looked very much like the ELS averages in terms of bill rates per hour. That, now having moved into business advisory, is going to blend that. We've given you the relative percentages of what the revenue is from the legacy practice versus Blue Stone, so you can pretty much back into that in terms of the math and the impact.

With respect to Vonlay, that, again, at roughly $5 million on $100 million, is just not going to be all that meaningful in the quarter. And it would take quite a bit of growth for that to really start to show up and have any kind of meaningful impact at this point.

Randle Reece - *Avondale Partners - Analyst*

Thanks.

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

And before we go to the next question, let me come back to the bonus question and just clarify that the sequential increase in bonus expense was about $10 million, and the year-on-year comparison is an incremental of about $13 million.

And operator, why don't we go to the next question, then?

Operator

Kevin Steinke, Barrington Research.

Kevin Steinke - *Barrington Research Associates, Inc. - Analyst*

The mix shift towards fixed-fee projects -- is that an indication of strong growth in clinical solutions this year and that becoming a larger percentage of the healthcare segment revenue at all?

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

Kevin, this is Jim. It is a part of that, but I think another part of it is just still the core business that we have, the non-clinical solutions piece, still had a bit more fixed fee this year than we had last year. So it's a little bit of a combination.

Kevin Steinke - *Barrington Research Associates, Inc. - Analyst*

Okay. And within legal, just an update on your integrated analytics offering and how that's catching on among the client base?

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

Kevin, this is Mark. It continues to be evolutionary. It's certainly something that continues to be out there and increase gradually. And pretty much as we thought, it continues to gain a popularity. Once we have trial, normally we have people sticking with it in various ways. But at this point, it's not a meaningful percentage of the total revenue of the legal discovery business.

Kevin Steinke - *Barrington Research Associates, Inc. - Analyst*

Okay. And also, Mark, you mentioned DSO up a little bit. What would you attribute that to? And do you see that coming back or getting collected over the remainder of the year?

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

Absolutely, Kevin. I think it was just a slowdown in payments at the end of the quarter that we typically have not seen, because actually, right after the first of July, we saw a substantial increase in collections. So I'm highly confident that we're going to have a more normalized period after that. So I don't think there's anything unusual about what's going on, other than just a slowdown. And given what we've experienced, I would confirm it's temporary.

Kevin Steinke - *Barrington Research Associates, Inc. - Analyst*

Okay. And lastly, I just want to circle back on an announcement you had earlier in the month on an investment in Shorelight Education. How material was that investment, and what prompted you to make that? What do you see the benefit of that being, going forward?

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

Kevin, this is Jim. We didn't disclose the terms on that, but more importantly, strategically, when you look at our higher education clients, one of the fundamental challenges that they're having right now is that they're having difficulty growing the top line. It's not really going to come from tuition increases, it's not going to generally come from public funding, and it's not going to come from research. And so your only real option is to have revenue growth come from gifts or endowment return. And while those may surface, I think it's a hard way to plan a business.

And so what Shorelight does is it gives our clients an opportunity to have access to international students, which typically will be full pay. And it provides them with an opportunity to increase their top line in a consistent manner with their expectations, also, for achieving more diversity on the campus.

So for us, it's a long way of saying for us, it's just an opportunity to provide a solution through Shorelight to our clients that are struggling otherwise in terms of growing the top line.

Kevin Steinke - *Barrington Research Associates, Inc. - Analyst*

Okay, thanks for taking my questions.

Operator

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

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

Thank you all for spending time with us this afternoon. We look forward to speaking with you again in October when we announce our third-quarter results. Good evening.

Operator

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