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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 fourth quarter and full year 2020. (Operator Instructions) As a reminder, this conference call is being recorded.

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

The company will be discussing one or more non-GAAP financial measures. Please look at the earnings release and on Huron's website for all of the disclosures required by the SEC, including 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 Fourth Quarter and Full Year 2020 Earnings Call. With me today are John Kelly, our Chief Financial Officer; and Mark Hussey, our President and Chief Operating Officer.

Before I begin, I would like to highlight that we have placed supplemental materials on our website at ir.huronconsultinggroup.com to provide additional detail about the range of our views on how the COVID-19 pandemic might influence our outlook for 2021. These supplemental materials should be reviewed in conjunction with our earnings call and not on a stand-alone basis.

Company-wide revenues declined 4% in 2020 compared to 2019, reflecting the challenges that the pandemic presented to our 2 largest industry verticals, health care and education. These challenges were partially offset by strong growth in the Business Advisory segment, which achieved record revenues during the year and now represents 32% of total company revenues. Our strategic focus on expanding our offerings into commercial industries within the Business Advisory segment proved to be beneficial in 2020, highlighting the benefits of increased diversification in our portfolio and end markets.

I want to spend a few minutes talking about 2020 to provide perspective on how the year evolved for Huron. Our primary focus has been and continues to be on profitable revenue growth. And while we didn't achieve our objectives set prior to the pandemic, Huron's response during the pandemic was strengthened by our collective resiliency, creativity and market relevancy amidst the many challenges that faced our client base. We were proactive and took critical actions during the year that we believe position this company for growth in 2021 and beyond.

In 2020, when many of our clients were experiencing substantial losses, we worked closely with them to develop solutions which help them manage through this period of significant disruption. In 2020, we generated over $30 million in revenue from offerings that were directly responsive to COVID-19 pressures faced by our clients. These critical efforts demonstrated the extent to which we can be nimble and innovative and quickly create new revenue opportunities.

We also successfully recruited senior leaders into multiple businesses, including several experienced personnel that will help us further execute on our commercial strategy as we establish service lines that we believe will generate new avenues of collaborative growth beginning in 2021. We also took proactive measures to manage our cost base throughout the year, including tightly managing our discretionary spending, modestly adjusting our workforce and reducing our real estate footprint to achieve a level of operating efficiency that we believe will create a foundation from which we can grow and expand margins in 2021.

In addition to our cost management efforts, we effectively managed our cash position, increasing cash flows from operating activities to $137 million for the full year. Our strong cash flows enabled us to reduce our net debt by $60 million while also initiating and successfully completing the implementation of a new cloud ERP system, which went live on January 1, 2021.

We continue to strengthen our advanced technology offerings across all of our segments. While the term digital transformation has many meanings, the importance of technology in helping our clients survive and thrive in environments of disruption is very apparent, as evidenced by the strong demand we saw for our digital, technology and analytics offerings in 2020.

Revenue from technology services throughout the company has had a compound annual growth rate of nearly 20% since 2015 and has grown to over 30% of total company revenues in 2020. We believe this trend will continue based on the demand we anticipate for these services across all of our end markets.

The pandemic has highlighted -- has heightened -- I'm sorry, has highlighted the need for many organizations to adopt cloud technologies, automation and analytics to strengthen their competitive position and be responsive to this rapidly changing environment. Some professional services firms have strong technical competencies, while others have deep industry experience. Huron has both, and these competencies are integrated across all of our businesses, enabling us to provide digital technology and analytics offerings across multiple industries.

Lastly, we continue to support our people professionally and personally as they manage through an incredibly taxing environment. Our efforts in 2020 increased our already high employee engagement scores, clearly demonstrating that our nearly 4,000-person team is supportive of how we manage through the pandemic and, equally important, that they continue to be excited about being a part of our growth strategy.

I will now share some additional insight into our fourth quarter and full year 2020 performance, along with our expectations for 2021. On a full year basis, Healthcare segment revenues declined 12% over 2019. In the fourth quarter of 2020, the Healthcare segment declined 18% over the prior year quarter, consistent with our expectations. The resurgence in COVID-19 patients, while not as disruptive as it was at the onset of the pandemic, and the well justified distraction caused by the vaccine rollout during the fourth quarter, took a toll on our Healthcare clients, which resulted in some project deferrals. We remain cautiously optimistic about performance in this segment as our sales pipeline continues to develop, driven by the increased pressures facing the health care industry.

When the ongoing impact of the pandemic eases, we expect there to be a resurgence of demand for our Healthcare services across the portfolio, including our performance improvement offerings. We expect our clients will continue evolving their care delivery models and operations to accommodate the ongoing transformation taking place across the industry. Efforts to improve cash collections and create better access to care will also be important ongoing priorities for health care clients with margin challenges.

Finally, and consistent with my prior comments, we expect to see an increase in technology spend among health systems, particularly in support of telehealth and the application of intelligent automation and analytics.

Turning to the Business Advisory segment. On a full year basis, segment revenues grew 6% year-over-year, driven by strong demand in our digital, technology and analytics and distressed advisory offerings, offset by softer performance in our strategy-related offerings. In the fourth quarter of 2020, Business Advisory segment revenues declined 4% over the prior year quarter.

The Business Advisory segment faced tough comparisons following solid growth in the fourth quarter of 2019. The quarter-over-quarter decline in revenue was primarily attributable to our distressed advisory and strategy offerings, partially offset by continued growth in our digital, technology and analytics offerings.

Our technology and distressed advisory offerings both achieved record revenues in 2020, and each of the 4 businesses in this segment are well positioned for growth in 2021. Driving that growth will be the need for companies across all industries to reevaluate their market position and future strategy to accommodate the disruptions and opportunities that have resulted from the pandemic.

I want to highlight our continuing investment in expanding our commercial sector expertise and capabilities. We believe that our investments, all of which are contemplated within our guidance estimates, will accelerate new growth areas and position Huron to take advantage of the significant market opportunities that exist across the commercial industries we serve, in addition to the collaborative opportunities within health care and education.

Turning now to the Education segment. Revenues in the segment were generally flat in 2020 as compared to 2019. In the fourth quarter of 2020, Education segment revenues declined 21% over the prior year quarter. Coming off of a very strong first half of the year, this segment saw several engagements get deferred until 2021. The lack of growth in 2020, which stands in stark contrast to consistent growth in this segment over the past 5 years, reflects the dramatic impact of the pandemic on the operations and finances of our higher education clients.

Since the beginning of 2021, we have seen positive momentum and demand for our research, strategy, business operations and student-related offerings. While our clients remain cautious about starting significant technology-related engagements, given the size of these investments, we believe that as the market stabilizes, previously deferred opportunities will begin to restart.

Many educational institutions found that their digital platforms were insufficient to address the surge in remote learning, and are equally deficient in terms of introducing cloud technology to the administrative, research and student aspects of their business. While many of our higher education clients were focused entirely on transitioning to remote learning during the fall semester, most colleges and universities have brought students back to campus in early 2021. While there is some hope that this year will be less disruptive, educational institutions will face a dramatically different world in the future. And in many cases, current business models will not suffice in the future environment, creating numerous opportunities for our services.

Let me turn to our expectations and guidance for 2021. Our revenue guidance for the year is $830 million to $890 million. We also expect adjusted EBITDA in a range of 10.75% to 11.75% of revenues and adjusted diluted earnings per share of $2.25 to $2.75.

I will now provide a few thoughts regarding our expectations for each segment as well as overall company profitability. With the pandemic and its corresponding uncertainty still evolving, we believe we will have modest sequential revenue growth in the first half of the year as compared to the second half of 2020, followed by stronger growth in the second half of 2021, which translates into approximately 2% growth for the full year, at the midpoint of our 2021 guidance.

Several factors are in play in arriving at this estimate. First, while we have seen some positive and more sizable conversions recently in our pipeline, we believe it is appropriate to be conservative in our estimates until we get better visibility as to how and when the pandemic will ease, particularly in the health care and education industries.

Second, this guidance reflects a tough comparison over the first half of 2020. Although our Healthcare business felt its biggest impact in the March through June time frame last year, the Education and Business Advisory segments had a strong first 6 months last year.

Third, we believe that the second half of 2021 will be better than the first half of this year, particularly for Healthcare and Education. It is our hope that our fourth quarter run rate will be closer to our pre-pandemic run rate in the fourth quarter of 2019.

At the midpoint of our guidance, we anticipate Healthcare segment revenues will grow in the low single-digit range in 2021 as compared to 2020. Our guidance also reflects mid-single-digit revenue growth in the Business Advisory segment. In the Education segment, we anticipate a low single-digit decline in revenue growth for the year, reflective of the difficult first half comparisons, driven by the strong growth we experienced in the segment at the beginning of 2020.

In terms of margins in 2021, our guidance reflects our commitment to expanding margins and is inclusive of the proactive cost savings measures taken in the fourth quarter, as well as strategic and operational investments that we believe will enhance our revenue growth trajectory, drive deeper operational efficiencies and create opportunities to better leverage our G&A.

My management team and I firmly believe that we have positioned this company for solid growth in the coming years. Our growth in the commercial markets remained strong in 2020, and there is no question in my mind that we are well positioned to address the significant challenges that the pandemic has had on health care and education industries. Our cautiousness at this time, at the end of February, is indicative of our desire to be conservative as to the timing of increased conversion in our health care and education pipelines, although in both cases we have already seen some reflection of that taking place. We are firmly committed to our financial strategy of achieving sustainable organic revenue growth and expanding margins over time.

In summary, our clients are facing significant disruption and mounting financial and operational pressures that we believe will drive strong demand for our services as the company -- as the economy stabilizes. And we believe we are well positioned to take advantage of these opportunities as they arise. While we believe we have navigated the near-term disruption, our focus has consistently remained on positioning Huron for the longer term.

We are committed to executing on priorities to drive shareholder value, which include achieving sustainable organic growth, driving margin expansion, strategically deploying capital and investing in our people. Amidst the turmoil of 2020, we continued to execute on our 5-year strategy that will strengthen our competitive advantage across markets.

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

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

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

Also, our acquisition of ForceIQ, which closed in November, is included in our fourth quarter financial results in the Business Advisory segment. Our recent acquisition of Unico Solutions, which closed in February, is not included in our fourth quarter financial results. Unico Solutions will be included in the Business Advisory segment beginning in the first quarter of 2021. The Unico Solutions acquisition strengthens our data management and governance capabilities as we help clients better manage their data and optimize their operations.

Now let me walk you through some of the key financial results for the quarter. Revenues for the fourth quarter of 2020 were $198.3 million, down 14.6% from $232.3 million in the same quarter of 2019. The decline in revenues in the quarter was primarily driven by the Healthcare and Education segments as the impact of the pandemic continued.

For full year 2020, revenue was $844.1 million, down 3.7% from $876.8 million in 2019. As Jim mentioned, the decline in revenue over the prior year was driven by the Healthcare and Education segments, which was partially offset by solid organic growth in the Business Advisory segment.

The performance of the Business Advisory segment, which achieved record revenues in 2020, emphasizes the benefits of a more balanced portfolio across our services and end markets.

Net loss was $6.1 million or $0.28 per diluted share in the fourth quarter of 2020 and includes the pretax impact of restructuring and lease impairment charges of $18.7 million. This compares to net income of $14.4 million or $0.63 per diluted share in the same quarter in the prior year.

Full year 2020 net loss was $23.7 million, or $1.08 per diluted share and includes the previously mentioned fourth quarter pretax restructuring charges as well as the first quarter pretax goodwill impairment charge of $59.8 million. This compares to net income of $42 million or $1.87 per diluted share in 2019.

Our effective income tax rate in the fourth quarter of 2020 was a benefit of 43.7% and a pretax loss of $10.8 million compared to 18.5% on pretax income of $17.6 million a year ago. Our effective tax rate for Q4 of 2020 was more favorable than the statutory rate, inclusive of state income taxes, primarily due to the impact of our net operating loss that will be carried back to prior year income at a higher prior year tax rate that's provided for under the CARES Act and federal tax credits recognized during the quarter.

On a full year basis, our effective income tax rate for 2020 was 30%, which is more favorable than the statutory rate, inclusive of state income taxes, primarily due to year-to-date pretax losses, tax benefits related to federal tax credits, a discrete tax benefit for vested share-based compensation awards and tax benefits related to nontaxable gains on our investments used to fund our deferred compensation liability. These favorable items were partially offset by increases in our valuation allowance, primarily due to increases in deferred tax assets recorded for foreign tax credits, certain nondeductible business expenses and the nondeductible portion of the goodwill impairment charges recorded during the first quarter of 2020.

Adjusted EBITDA was $17.1 million in Q4 2020 or 8.6% of revenues, compared to $29.4 million in Q4 2019 or 12.6% of revenues. For full year 2020, adjusted EBITDA, as a percentage of revenues, declined to 10.3% compared to 12.0% in 2019.

Adjusted non-GAAP net income was $10.2 million or $0.45 per diluted share in the fourth quarter of 2020, compared to $18 million or $0.79 per diluted share in the fourth quarter of 2019. For the full year 2020, adjusted non-GAAP net income was $47.9 million or $2.15 per share compared with $61.6 million or $2.74 per share in 2019.

Now I'll make a few comments about the performance of each of our operating segments.

The Healthcare segment generated 43% of total company revenues during the fourth quarter of 2020 and posted revenues of $85.1 million, down $18.5 million or 17.9% from the fourth quarter of 2019. The decline in revenue reflects the impact of the ongoing COVID-19 pandemic on our new business pipeline and related slower conversion of soft backlog during the quarter.

On a full year basis, Healthcare revenue declined 11.5%. Performance-based fees for the full year 2020 were $69.3 million compared to $71.1 million in 2019. Operating income margin for Healthcare was 28.3% for Q4 2020 compared to 30.6% for the same quarter in 2019. The quarter-over-quarter decline in margin was primarily due to a decrease in billable consultant utilization, partially offset by higher average consultant bill rates and lower indirect costs. On a full year basis, operating margin was 26.9% compared to 31.5% in 2019.

The Business Advisory segment generated 33% of total company revenues during the fourth quarter of 2020 and posted revenues of $65.9 million, down $3 million or 4.3% from the fourth quarter of 2019. Revenues for the fourth quarter of 2020 included $1.3 million from our acquisition of ForceIQ. The quarter-over-quarter decline in revenue was primarily attributable to our distressed advisory and strategy offerings, partially offset by continued growth in our digital, technology and analytics offerings. The Business Advisory segment faced a tough comparison relative to the fourth quarter of 2019, which benefited from higher success fees and the recognition of revenue that had been previously deferred upon receipt of a signed contract.

On a full year basis, the Business Advisory segment revenues grew 5.9% year-over-year driven by strong demand for our digital, technology and analytics and distressed advisory offerings. The operating income margin for the Business Advisory segment was 16.3% for Q4 2020 compared to

24.2% for the same quarter in 2019. The quarter-over-quarter decline in margin was primarily due to increases in performance bonus expense based on full year results for our revenue-generating professionals, increased contractor expenses and increased restructuring charges.

On a full year basis, operating margin was 18% compared to 19.7% in 2019. The decrease in operating margin year-over-year was primarily attributable to the shift in revenue mix to our digital, technology and analytics offerings, which have a relatively lower margin and away from our strategy offerings, which traditionally have a relatively higher margin. Our strategy offerings were impacted by the effects of the pandemic during 2020.

The Education segment generated 24% of total company revenues during the fourth quarter of 2020 and posted revenues of $47.3 million, down $12.5 million or 20.8% from the fourth quarter of 2019. This decrease in revenue reflects the impact of the ongoing COVID-19 pandemic on our new business pipeline and related slower conversion of soft backlog during the quarter.

On a full year basis, Education segment revenues were largely flat versus the prior year. Our Education business had a strong start to the year, driven by the momentum we had built in 2019, before our clients were severely disrupted by the pandemic. The operating income margin for Education was 12.1% for Q4 2020 compared to 20.9% for the same quarter in 2019. The quarter-over-quarter decline in margin was primarily due to a decrease in billable consultant utilization and restructuring charges related to the headcount reductions during the quarter. On a full year basis, operating margin was 21.3% compared to 24.8% in 2019.

Other corporate expenses not allocated at the segment level were $47.4 million in Q4 2020 compared with $34.9 million in Q4 2019. The quarter-over-quarter increase in corporate expenses was primarily attributable to $14.5 million of restructuring charges taken in the quarter to reduce our operating costs to address the impact of the COVID-19 pandemic in our business, including the workforce reduction announced on our last earnings call as well as certain office exit costs. Fourth quarter corporate expenses also included $3.1 million in expense related to the increase in liability for our deferred compensation plan, which is fully offset by a corresponding gain in other income related to the increased value of the assets used to fund that obligation.

Now turning to the balance sheet and cash flows. DSO came in at 52 days for the fourth quarter of 2020 compared to 62 days for the third quarter of 2020. This record low DSO reflects the efforts of our project and corporate teams to work closely with our clients during 2020 to ensure collections while supporting the needs of our clients.

Total debt includes the $200 million in senior bank debt and a $3 million promissory note for total debt of $203 million. We finished the year with cash of $67 million for net debt of $136 million. This was a $40 million decrease compared to Q3 2020 and a decrease of $60 million compared to the end -- compared to year-end 2019.

Our leverage ratio, as defined in our senior bank agreement, was approximately 1.9x adjusted EBITDA as of December 31, 2020, compared to 1.6x adjusted EBITDA as of December 31, 2019. Our net leverage ratio was 1.3x trailing 12-months EBITDA as of December 31, 2020, when the bank definition calculation is adjusted for cash on hand. This compares to 1.6x trailing 12-months EBITDA as of December 31, 2019, when calculating in the same manner.

Cash flow from operations for 2020 was $137 million, and we used $60 million of our cash to invest in capital expenditures, resulting in free cash flow of $121 million. We also used $27.1 million of our cash to repurchase approximately 425,000 shares in 2020 to partially offset the dilution created by our share-based compensation programs.

Finally, let me turn to our expectations and guidance for 2021. For the full year 2021, we anticipate: revenues before reimbursable expenses in a range of $830 million to $890 million; adjusted EBITDA at a range of 10.75% to 11.75% of revenues; and adjusted non-GAAP EPS in a range of $2.25 to $2.75. We expect cash flows from operations to be in the range of $70 million to $90 million. Capital expenditures are expected to be approximately $15 million to $20 million, and free cash flows are expected to be in a range of $55 million to $75 million, net of cash taxes and interest and excluding noncash stock compensation. Weighted average diluted share count for 2021 is expected to be 22.5 million.

Finally, with respect to taxes, you should assume an effective tax rate in the range of 28% to 30%, which comprises a federal tax rate of 21%; a blended state tax rate of 5% to 6%; and incremental tax expense related to certain nondeductible expense items.

Let me add some color to our guidance starting with revenue. Given the ongoing uncertainty created by the COVID-19 pandemic, we are issuing a wider revenue range than we typically would at the outset of the year. The midpoint of the guidance range reflects just under 2% revenue growth over 2020 revenue of $844 million. The midpoint of guidance assumes that we will report a year-over-year decline in revenue in the low double-digit range in the first quarter as the first quarter of 2020 was relatively unimpacted by the pandemic. Our guidance assumes that we'll see sequential growth in the second and third quarters, and that the back half of 2021 will reflect strong year-over-year growth when compared to 2020.

With regard to the Healthcare segment, we expect low single-digit revenue growth for full year 2021, and we expect operating margins will be in a range of approximately 26% to 30%, reflecting lower utilization in the first quarter that improves sequentially as the year progresses.

In the Business Advisory segment, we expect to see mid-single-digit revenue growth for 2021, and we expect our operating margin in this segment to be in a range of approximately 19% to 21%.

In the Education segment, we expect revenue to decline in the mid-single-digit range in 2021, reflecting a very tough first half comparison to 2020 prior to the impact of the pandemic on this segment. We expect operating margins will be in a range of approximately 23% to 25%, reflecting lower utilization in the first quarter that improves sequentially as the year progresses.

We expect unallocated corporate SG&A to be relatively flat on a full year basis in 2021 compared to 2020 when excluding the fourth quarter restructuring charges incurred during 2020 and the corporate expense impact of our deferred comp plan.

Turning to the total company. Huron's adjusted EBITDA margin is expected to be in a range of 10.75% to 11.75% of revenues, an increase of 95 basis points at the midpoint of guidance compared to 2020. We anticipate that the first quarter of 2021 will be our lowest revenue-producing quarter of the year. Also in the first quarter, the reset of fringe rates at the beginning of the year, including FICA and our 401(k) match, will have an impact on our first quarter expenses as this reset is fairly significant given our people-driven business.

Lastly, in the quarter, we expect an increase in stock compensation expense for restricted stock awards that will be granted in March to retirement-eligible employees. Based on these factors, we anticipate approximately 15% of our full year adjusted EBITDA and full year adjusted EPS to be generated during the first quarter.

As a closing reminder, with respect to 2020 adjusted EBITDA, adjusted net income and adjusted EPS, there are several items that you will need to consider when reconciling these non-GAAP measures to comparable GAAP measures. The reconciliation schedules that we included in our press release will help walk you through these reconciliations.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Tobey Sommer with Truist Securities. Please proceed, sir.

Tobey O'Brien Sommer - *Truist Securities, Inc., Research Division - MD*

Thank you. As you envision the year unfolding with things more subdued in the first half and then improving in the second, as you start to add headcount and grow again from that perspective, do you think you'll be able to continue to generate leverage? Or will it take a little bit of time to absorb that acceleration process and still expand margins?

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

Tobey, it's John. I can start, and then Jim or Mark can jump in with any color. I think that given -- particularly in Healthcare and Education, where the utilization levels of the segments -- segment level right now are lower. They're in the mid-60s for the fourth quarter. I think that as we do start to see growth and acceleration, I think that we'll be able to first ramp up utilization.

We're hiring across the business right now, and that includes in Healthcare and Education. I'd say the hiring that we're doing in those segments right now tends to be more strategic, and more investments in areas where we think we're going to see a lot of growth in the near-term as opposed to really kind of adding capacity. But I think that, as the year progresses, step 1 will be to utilize some of the capacity that's there right now due to the lower utilization.

And then once we get into the back half of the year, I do expect us to transition to hiring more aggressively, including adding capacity at that point based on what our expectations for revenue are going to be in the back half of the year.

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

Yes. And Tobey, this is Jim. I would only add that I think we have a good pipeline right now. It's for us, it's just a question of converting the pipeline.

And so I think, as John indicated, I think our sense would be that as the pipeline begins to open up, and we've already seen signs of that happening across the board, including Healthcare and Education, I think the first focus, as John indicated, would be that we would use the existing capacity. But we also feel pretty confident about our ability to hire in on a pretty timely basis if that pipeline picks up quickly.

Tobey O'Brien Sommer - *Truist Securities, Inc., Research Division - MD*

Okay. And another kind of numerical thing, but also strategic. The balance sheet and leverage that you outlined here does show leverage going down. Could you update us on your thoughts of the ranges of leverage that you would like to manage the business to intermittently sort of between acquisitions of size? Thanks.

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

Tobey, John again. I would say that from a leverage perspective, our target leverage at this point is probably somewhere in the mid-1 range, I'd say. I think our viewpoint is that, that gives us flexibility to the extent that there's opportunities, either as it relates to buybacks or as it might relate to strategic tuck-in acquisitions to be able to execute on those things, as well as to maintain a balanced approach in general, where we're able to take advantage of those opportunities, but still give us plenty of room from a debt covenant perspective.

So I think that kind of the resting rate, if you will, is probably around the mid 1s. And we're comfortable flexing all the way up to the mid-2s. I'd say anything above that, just given the current economic environment, we tend to want to have a little more cushion in our balance sheet than to go much above the mid-2s, but that's generally how we think about it.

Tobey O'Brien Sommer - *Truist Securities, Inc., Research Division - MD*

Thank you. And then I have one question on the pipeline, and I'll get back in the queue. You did describe sort of an active pipeline. Is there any sort of comment you can give us on the size of projects and the nature of projects that might differ, to the extent there's a focus in the pipeline that is something that's maybe different or new that you haven't been working on the last year or so? Thank you.

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

Tobey, this is Jim. I think the composition of the pipeline in terms of size is probably pretty consistent with what we've seen before. And so I think from our perspective, as we tried to indicate in our initial comments here, what -- I mean, there really has been enormous changes, particularly in Healthcare and Education, but really across our markets. And I think our pipeline reflects the fact that a lot of our clients are really facing a very different environment when this pandemic begins to ease.

And so I think our pipeline reflects some of the seriousness of some of those changes that are likely to take place. And that's why I said we feel good about -- we feel very good about the demand for our services. It's just a question of trying to get the timing right at this point in time. And as John and I both indicated during this call, we had disruptions that we -- back in June of last year, we thought, well, maybe the fall would be a lot quieter and it obviously was far from quiet.

And so now things do kind of appear to be kind of maybe quieting down again, and I think our clients are, frankly, looking at the exact same thing. So I feel good about the pipeline. I feel good about the portfolio of offerings that we have. I mean, I'm sorry, the portfolio of opportunities that are ahead of us. It's just for us, it's just going to be a question of the timing at this point in time and having them come to fruition.

Tobey O'Brien Sommer - *Truist Securities, Inc., Research Division - MD*

Thank you.

Operator

Our next question comes from Andrew Nicholas with William Blair. Your line is now open.

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

Hi. Good afternoon. Just wanted to follow-up on one of Tobey's questions around margins. Just wondering, kind of, underlying that guidance, what does guidance assume in terms of kind of the return of some of the more temporary cost savings you realized? Because of the pandemic, I'm thinking about kind of the more discretionary items like travel, entertainment and marketing meetings, and what that might mean for long-term thoughts on the cost structure?

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

I'll start on that one, Andrew. I'd say the guidance generally contemplates that it's probably still a predominantly remote work environment through the first half of the year. And that by the time we get to the second half of the year, that we do see some of those expenses related to business development coming back into the system at that point.

We also expect, I think, based on how we see the revenue growth trajectory that we're going to be, as I said earlier question, that we're going to be more aggressively hiring at that point as well, too. So I think that you will see relatively -- certainly, if you're looking year-over-year, you're going to see lower expense levels in the first half of 2021 compared to what we had in the first half of 2020.

I think by the time you get to the back half of the year, you will see some of those expenses increasing but it can be commensurate to the revenue growth that we see. And in fact, I think it's going to be a period of expanding margins during that time. So you're going to see the revenue growth outpacing the expense growth, but you will start to see more expenses come into the system to support that growth in the back half of the year.

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

Great. Thank you. That's helpful. And then for my follow-up, I just wanted to touch on health care hiring specifically. I think on last quarter's call, you touched on or estimated about 60 employees or 60 staff members potentially leaving as a result of the restructuring. But it looks like headcount actually came in quite strong. So I'm just wondering if there's anywhere in particular that we should be thinking about in terms of where that hiring is focused on, and what that says about demand for specific subsectors within that business?

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

I can take the first crack at it, Andrew. I think that, even as we talked about during the call last quarter, the actions that we had to take in the fourth quarter were really around some of those areas of the business that we thought were to be a little bit of a longer-lasting impact due to the pandemic.

But in the areas where, based on the conditions we see in the market, for example, the performance improvement solutions within health care, there we do expect a rebound during 2021. So we're much more cautious there as far as reducing any heads.

I think as far as the hiring goes, we do continue to make strategic hires. And that's really at all levels. We're bringing in key leadership in certain areas and people that we think are really going to drive our growth to accelerate in the recovery that we're expecting as the year goes on. So I think what you see there is a little bit of a mix, where you've got some reductions in areas that are likely to be a little bit slower to return to growth, offset partially by some headcount increases in areas that we expect to grow more aggressively during 2021.

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

Got it. Thank you. I'll get back in the queue.

Operator

Our next question comes from Bill Sutherland with Benchmark. Your line is now open.

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

Thank you. Evening everybody. I was noticing the hourly bill rate for health care, John, jumping up in the fourth quarter. Is that anything to do with the nature of the projects? Or?

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

Yes. Bill, it is. During the fourth quarter, we had some really nice performance on several key projects in terms of reaching some contingent fee milestones. As you know, the accounting rules for contingent fees now are generally more on a percent-complete basis, like our fixed-fee jobs. But when you do reach certain milestones, you can get benefits that flow through the P&L. So we had some of that during the fourth quarter as well as some jobs where the team just operated with excellent efficiency during the fourth quarter. And we're able to pick up some efficiency gains, too. So all that is flowing through the bill rate for the fourth quarter.

If I kind of spin that into future looking, I would not take the fourth quarter health care bill rate and use that as a projection for next year. I probably, though, I think it is fair to look at the full year bill rate that we had in health care for this year, which was up nicely over 2019. I think that, that rate probably is a reasonable way to look at things going into the future.

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

Okay. And then just to revisit the M&A topic for a second, you've done a couple of nice bolt-ons here for Business Advisory. Should -- is that kind of what your pipeline, as you look at the new additional opportunities, is that kind of what it looks like? Is there anything that might be more of a difference maker, more strategic?

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

Bill, this is Jim. I think what you saw is going to be pretty much reflective of the things that we're looking at right now. When there's an opportunity for us to really take on a really important strategic addition to our competencies, we'll look at it. We were fortunate to get 2 really good companies to become a part of us. But I think that will probably -- be reasonably reflective of any M&A that would take place in the future.

Obviously, we look at all kinds of opportunities. But I think my sense is that at this time, it would be mostly in line with what you've seen so far.

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

And then you'd expect -- I'm sorry, go ahead, John.

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

I was just going to add, Bill, and add to Jim's comments, when we're looking at M&A, really it's almost never more capacity of things that we already do. It's usually adding new capabilities. And obviously, the technology area is an area where we see the capabilities that are out there in the market or the things that are coming to market for our clients are continually evolving.

So oftentimes, smaller tuck-in type acquisitions are a quicker way to get those capabilities into our portfolio. And the way we always look at it is, first, kind of going back to the strategy; second, thinking about what, in the long run, is going to really accelerate our organic growth. And you then make decisions about, okay, so what capabilities are you going to grow internally versus maybe where there's an opportunity to go and buy and accelerate something.

And so I think the last couple of acquisitions that you've seen are perfect examples where our conclusion was that it was an area where the technology was evolving, it was going to be important to our clients and that the fastest way for us to move into that space was via the acquisition versus building internally. And we're optimistic as we look forward to that, in the long run, in the next couple of years, it's going to provide more organic growth for us having gone the M&A route.

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

And Bill, this is Jim. I'm sorry, I'd add one thing to John's comment. And that sometimes, as we've seen, not just with ForceIQ and Unico, but also in prior acquisitions of that size, we often kind of get to know them when we're working with them on a client site, and we see the immediate synergies that exist. And so it gives us a really good understanding to know how they would kind of sequence into our core set of services. So that's an added advantage.

And I suspect that as things go on, particularly in the technology area, that will be indicative of what we're going to see in the future. And that is just organizations that are -- smaller organizations that we think can really add value to us in our technology portfolio, and that we also have a chance to kind of gauge their culture as well. So it's been a very good strategy for us to follow. And I feel -- I think we'll probably see more of that in the future as well.

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

And maybe, Bill, this is Mark. I just want to throw one more comment in. Not to drain the swamp on this, but one of the reasons we can move on just tuck-ins, is that kind of unbeknownst to many people over the last 3 years, we've really built full enterprise platform practices within our technology capabilities. So ERP, CRM, EPM, data and analytics.

And so with that scale and going to now 20 partners in the mix, we have the opportunity to be a lot more targeted and selective. So that's why you probably won't see us do something of a -- more of a larger strategic acquisition in that space, absent a very clear and compelling reason to do so.

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

Right. Makes sense. Thanks guys.

Operator

(Operator Instructions) Our next question comes from Kevin Steinke with Barrington Research. Your line is now open.

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

Hi. I wanted to ask about the Education segment. You noted some positive demand momentum there in several areas, although it sounds like the larger technology projects are still being deferred. What do you think it will take for higher education institutions to start moving forward with those larger technology projects? And is -- whether or not they do kind of a swing factor as to how -- where you're going to fall in the guidance range, I guess, for the year?

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

Kevin, I'll -- this is Jim. I'll start off by saying that I think what it's going to take, I think, for them to get more confident about their ability to take on increasing projects, particularly bigger projects, is probably just stability. I think back in the late spring and early summer, there was virtually zero stability in there on the campuses. In the fall, there was some, but not a lot of stability. I think there's a little bit more right now.

And so unless there's some other major blip, I think you're beginning to see kind of an increasingly stable environment, and that's what they're looking for. And I think once they get confidence that, that's going to be the case, I know they're hoping -- I know we're hoping that, that comes relatively soon, then I think you're going to start seeing things open up pretty quickly. In part because what the pandemic has really highlighted is exactly the need for the kind of services we're doing, particularly on our technology front, but also on a strategic front within education.

They just really are, I think, in most cases, including even the larger research universities, many of them were very behind the curve in terms of being able to incorporate advanced technology into their business. And so it came to fruition during the pandemic, and they were really kind of hindered by that.

So I think once they sense some stability, in terms of the pandemic and their confidence that they're going to have -- kids can safely return to campus, I think that's when you'll see things begin to open up.

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

I'll add, Kevin, that just to be clear, we do see some of these larger technology projects coming to market. So it isn't that uniformly university have paused on those projects. We have seen a number of them come through. We continue to see ones that we expect to close during the first half of this year. So the projects are there. It's more a case of just getting back to that growth trajectory that we had in 2018 and '19. And that's where --

mixed in with some of those that are going to market, you do have some where there have been delays, which that's kind of what we're waiting for, is for it to get back to that level that we saw into 2019.

Ironically, as much as in the short term, this is the area of the business where, on the education side, where there's some reduced visibility compared to what we had in 2018 and 2019. The flip side, this is an area of the business where the needs of our clients are pretty well defined, and the market is pretty well defined. And it's a big market, and we think in the long run, it's going to be perhaps the greatest market opportunity for this business once that stability that Jim referred to comes back into the system.

But it is a bit of timing right now and just kind of reduced visibility from what we're used to in it, given the impact of the pandemic.

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

Great. Yes, that's helpful. Great. Thanks. Okay. I want to also ask about within Business Advisory, your strategy offerings. You mentioned that all 4 of your businesses within that segment are positioned for growth in 2021. And so what does the pipeline look like on the strategy piece of the business? Is that a case to where clients are still kind of holding off until they can get some more comfort? Or is that pipeline moving forward at all?

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

Yes. I think the pipeline for the strategy business is actually moving along quite nicely. I think the hardest hit to that business was probably at just the very beginning of the pandemic back in the -- certainly, the first half of the year and probably into some of the summer as companies were just trying to figure out where this was going.

We've seen the pipeline pick up nicely in that business. And I think there -- I think we're pretty confident they're going to have a much better '21 than they did '20.

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

Yes. The thing that I said earlier in the year, Kevin, was if you think about kind of their strategy offerings in an immediate -- in the immediate aftermath of the pandemic, when companies necessarily are first forced to look a little more short-term focused, they were going to be pretty heavily impacted because of that shifting prioritization from our clients.

But we said that, on the flip side, coming out of an event like that, the expectation would be that demand would actually pick up because of clients' need kind of, in the aftermath, to start to rethink their strategy and how they're going to move forward in the new environment. And to echo everything Jim said, I think we're very optimistic that we're seeing that now in the pipeline, and we definitely expect growth from that part of the business in 2021.

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

Okay, good. I wanted to ask about -- you mentioned that you internally had a new cloud-based ERP system go live January 1. Should we think about that providing a longer-term opportunity to generate cost savings? Or what other sort of benefits might you be able to derive from that?

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

In the long run, Kevin, we are thinking of it as an opportunity in the long run to support enhanced margins for the business as we grow. And I think the real opportunity there, from our perspective, is just the additional visibility the new system is going to provide for our projects as far as giving us visibility to situations where we might have an overrun or where things aren't progressing as we had expected, kind of getting better real-time information about that would be great.

And then in terms of just our talent, we're really excited about the tool as far as its ability to really help us identify the best talent within Huron for different projects, even across different segment lines and different project lines -- in different lanes in terms of different practices, and the ability to make sure that we are able to get the right resources on the right projects at the right time.

So from our perspective, those are 2 things when you think about running a professional services business that should enable a lot more efficiency as we move forward. And there's automation. That's part of the tool, too, that when we think about growing the business as we plan to do over the course of time, we expect to be able to use that efficiency that comes with the tool to be able to grow more efficiently without having to layer on a bunch of new or incremental SG&A costs as we grow. So I think those are probably the facets of it where we see the opportunity to expand margins over time.

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

Okay, good. Just 2 last quick ones here. So how are you thinking about capital allocation in 2021? Do you still want to continue to pay down debt? Are you kind of more at your comfort leverage ratio now, so could that open up the opportunity for share repurchases? It sounds like you still want to pursue the tuck-in M&A. But how are you thinking about capital allocation this year?

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

I think, Kevin, from our perspective, it's going to -- we're going to continue with a balanced approach to it. As you noted, there are tuck-in M&A opportunities that we think have a good chance to really add new capabilities to the business that will spur organic growth into future periods. So that's something that we would pursue.

As far as share buyback goes, we currently have a $50 million authorization from our Board, of which we've got $45 million left. And so, I guess, depending on the opportunity there, that's another area where we may deploy cash. And then just from a principal perspective, we do have dilution of our share base from our share-based compensation programs. And to the extent we can use share buybacks to offset some of that dilution, that's something that we're committed to doing.

And then from a debt perspective, I think it is -- it does just remain important to us to make sure that we have flexibility and to make sure that our balance sheet remains in the healthy shape that it's in now. So kind of default when we're not doing either M&A or share buybacks will be to pay -- reduce our net debt balance.

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

Okay. Great. And then just the last one. Do you -- have you baked in any performance fee number in the 2021 guidance?

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

I think, Kevin, if you look at the past 2 years, it's been pretty consistent around $70 million. And while we don't have perfect visibility as to exactly how the mix is going to evolve over the course of the year, I think that, that -- I think that, that run rate, when we think about 2021 based on what we can see right now, is probably a reasonable way to look at it.

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

Okay. Thanks a lot. Appreciate it.

Operator

Our next question comes from Josh Vogel with Sidoti & Company. Your line is now open.

Joshua David Vogel - *Sidoti & Company, LLC - Analyst*

Thank you. Good afternoon guys. Thinking about the current bench, and just kind of going back to one of the earlier questions, but thinking about the current bench and potential hiring as the year progresses, what is your target utilization rate? And do you think you can get there by late '21 within the existing base if your optimistic scenario plays out?

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

I think we can get there, to answer the last question first, by the end of the year. That's certainly the way our internal plans are built. Our target utilization, it varies a little bit by segment, just given the leverage models of the different businesses and size of projects, different factors like that, that can be unique. I'd say, within the Healthcare business, upper 70s is where our target utilization is. Within the Education business, it tends to be mid- to upper 70s. And then in the Business Advisory segment, it tends to be low to mid-70s, and that really reflects the strategy and distressed businesses, which tend to have less of a leverage model. And so that tends to bring down utilization for that part of the business.

But I think what we'll see is more of a ramp throughout the year. I think you'll probably see in Q1 utilization in the mid- to high 60s. For Healthcare and Education, I think you'll see that progress to -- on the low to mid-70s by the second quarter. And then the expectation is about -- by the time we're at the back half of the year that we're getting to utilization rates that are more consistent with those targets.

Joshua David Vogel - *Sidoti & Company, LLC - Analyst*

Thank you for the insights there. A comment around the incremental $30 million in revenue that came from those offerings that were in direct response to COVID. What exactly did that work entail? And has any of that carried into 2021 and baked into your guidance?

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

So there are elements of that work. It really falls into a few different categories. And Mark or Jim, feel free to jump in if I leave any components of it out. But we did a lot of work as it relates to testing, treatment and tracing from a COVID perspective, helping health care and higher ed institutions as well as laboratories manage their flow of testing volume, manage their capacity, make sure that we're finding the right routes to be able to manage that flow so that the process could work as efficiently as possible.

There are definitely technology projects included in there, where we helped our clients on the fly, update their technology to better support remote activities, whether it was telemedicine support or supporting remote education. Another area that came up was hospital's wanting to build up virtual capacity for hospital patients, given initially the surge of COVID cases. But then eventually also just wanting to have an option for patients that was outside the 4 walls of the hospital for people that weren't comfortable going in for elective procedures. And so we helped clients with some of those activities as well.

So I'd say that, that was probably the bulk of the $30 million during the year. And indeed, some of those projects are expected to continue on into 2021.

Another one would be stimulus funding management. We kind of built out a gateway at the beginning of the pandemic when the stimulus packages came out there, that really laid out in our core industry areas where there were opportunities for that stimulus funding, and we had a number of kind of strategic projects going through those stimulus opportunities and figuring out the best way to manage from a client perspective.

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

Yes. This is Jim. I think, John, that was a good summary. The one point I would reiterate, though, is the kind of the creating additional capacity for the hospitals by having hospital at home type of environments. We had started doing some of that work before the pandemic hit, and the intent at that point in time was really for hospitals that were interested in trying to take out lower acuity patients and getting them out of hospital, if it was feasible.

And so that started kind of pre-pandemic. And then when the pandemic hit, I mean, the timing was -- made it even that much more critical to get those patients out whenever you could. So I think that combination is still going to see -- we're going to still see a lot of that continue well into the future. I think what the last year has proven was that there are a lot of opportunities for patients to be treated more efficiently, and in some cases, more effectively outside the hospital.

And so in an odd way, the last year really gave us an opportunity -- and the partners that we work with gave us an opportunity to really kind of take advantage of that. I think you're going to continue to see that increased demand as time goes on.

Joshua David Vogel - *Sidoti & Company, LLC - Analyst*

All right. Great. Just one more for me. Maybe a little bit higher level, but you talked about in the past how health care clients, they were impacted by the drop in elective and non-urgent surgeries. And I was just curious, what are you seeing around activity levels there with regard to those procedures and what your health care clients are saying? And is it carrying into an improving thus far this year, especially as the vaccine is getting rolled out?

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

Well, Josh, there's a couple of things that have occurred. First of all, to answer your question directly, I mean I think, obviously, it varies. But I think in most cases, I think most hospitals have not yet got back to 100%. I think some of them are hovering between 85% and 95%, in part because you've had this kind of a couple blips with a lot of COVID patients coming in. And then you still have a fair number of people that are just reluctant to get treatment right now, which is a problem -- that's going to cause a problem later on.

So I think a lot of them have seen the elective surgeries come back relatively strongly, but not too often to the level that they were at pre-pandemic. So that creates some revenue pressure on that end as well. But at the same time, I think they're beginning to find that there's new avenues for treating some of those patients that's both good and bad. The hospitals are learning that, but others are -- obviously, other entrants into the market are also learning that there's some opportunities here to take some of those clients -- those patients rather, and treat them in a different fashion.

So I think the net result of what the pandemic does, if the pandemic were to miraculously disappear tomorrow, I think the big question for a lot of our health care clients is what does the future look like? And that's where we're doing a lot of our work right now. It's helping them trying to figure out what did change, what's going to change and how do we respond to that in a way that enables us to be efficient and make the kind of margins we're looking for.

And that is where I think you're going to see a lot of opportunity for us, both on the strategy side, the operational side and also the technology side.

Joshua David Vogel - *Sidoti & Company, LLC - Analyst*

All right. Well I appreciate all the insights. Thanks guys. Have a good night.

Operator

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

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 May when we announce our first quarter results. Have a nice evening.

Operator

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