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HURN.OQ - Q2 2024 Huron Consulting Group Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, and welcome to Huron Consulting Group's webcast to discuss financial results for the second quarter 2024. (Operator Instructions)

As a reminder, this conference call is being recorded. Before we begin I would like to point all of you to the disclosure at the end of the company's news release for information about any forward-looking statements that may be made or discussed on this call.

The news release is posted on Huron's website. Please review that information along with the filings with the SEC for a disclosure of factors that may impact subjects discussed in this afternoon's webcast. The company will be discussing one or more non-GAAP financial measures. Please look at the earnings release and on Huron's website for all of the disclosures required by the SEC, including reconciliation to the most comparable GAAP numbers.

And now I would like to turn the call over to Mark Hussey, Chief Executive Officer and President of Huron Consulting Group. Mr. Hussey, please go ahead.

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

Good afternoon, and welcome to Huron Consulting Group's second-quarter 2024 earnings call. With me today are John Kelly, our Chief Financial Officer; and Ronnie Dale, our Chief Operating Officer. In the second quarter, we achieved record revenues, led by solid growth in our healthcare and education segments, and we expanded our adjusted EBITDA margin to 15%. Our adjusted earnings per share also expanded to a record level, 20% higher than the previous high watermark established in the third quarter of the last year.

We generated record cash flow in the second quarter, enabling us to meaningfully reduce our debt while returning capital to shareholders through ongoing share repurchases. Our record second-quarter results capped a strong first half performance for 2024.

In the first half of 2024, revenues grew 9.5%. Adjusted EBITDA margins increased 60 basis points and adjusted diluted earnings per share increased 28% over the same period a year ago. Our results demonstrate strong execution against our strategy as well as the positive impact from the changes we made to our enterprise operating model at the outset of 2022. These changes have broadened the set of offerings we deliver to clients in our core industries and allows us to operate our business at new levels of efficiency.

Our strategic focus continues to be on driving sustainable revenue growth, expanding margins, and effectively deploying capital to deliver superior returns for our shareholders. As it relates to improving profitability, despite a difficult comparison, adjusted EBITDA margins grew 100 basis points in the second quarter over the same period a year ago.

The scaling of our business over the past three years, combined with build-out of our global delivery capabilities, and our team's focus on our key operating levers like pricing and utilization have meaningfully enhanced Huron's earnings power. We expect this trend to continue as we progress towards our mid-teens EBITDA margin target. I'm incredibly proud of our team for delivering performance over the last 10 quarters that has outpaced our 2022 Investor Day financial objectives.

Looking ahead to the remainder of 2024, we expect our progress towards our medium-term financial goals to continue. As reflected by the midpoint of our updated revenue guidance, we expect sequential growth in the second half over the first half of 2024 and 9% annual revenue growth year over year.

Let me make one final comment before diving into more detail on our performance in the quarter. Our success in the market and in delivering these financial results is only possible because of our incredibly talented team. We've received numerous recognitions for being an Employer of Choice in 2024, more than in any year in our 22-year history. Our people are the heart of our business. And these honors acknowledge the power of a collaborative culture as demonstrated by our team's commitment to our clients and to one another. Our culture is one of our greatest competitive advantages and enables us to operate as one firm and to realize our full potential.

Now I'll share some additional insights into our second-quarter performance. In the healthcare segment, second-quarter revenues grew 9% over the prior year quarter on top of 35% growth in the year-ago quarter over Q2 of 2022. The increase in revenues in the quarter was driven by a continued strong demand for our digital performance improvement culture and organizational excellence and strategy and innovation offerings.

The operating environment for healthcare organizations remains mixed and highly competitive, which continues to create solid demand across the breadth of our portfolio of offerings. While some health systems have realize improving margins over the past few quarters, many have not. In some cases, volumes have improved, but reimbursement trends continue to be challenging. Whether a hospital or health system is experiencing financial distress or seeking opportunities to advance their competitive advantage from a position of strength, our clients are here to shape their future strategies, evolve their business models, and optimize our operations to address the ongoing challenges and opportunities in the markets.

Our depth of industry expertise, broad array of offerings, and long track record of proven results for the clients positions us very well to provide strategic, operational, financial, and digital solutions to help them achieve a more sustainable future in this complex and challenging healthcare environment.

Turning now to education, education segment revenues grew 11% in the second quarter of 2024 over the prior year quarter on top of 25% growth in the year ago quarter over Q2 of 2022. The increase in revenues in the quarter was driven by increased demand for our strategy and operations and digital product offerings.

Higher-education institutions are facing complex challenges that threaten their historic business models. The issues facing university leadership are vast and they span all areas of the institution. For example, declining affordability continues to challenge the perceived value of a college degree in the face of unfavorable demographic trends. Rising costs and increased level of funding that made achieving goals even more difficult and they need to operate more efficiently while differentiating the student experience requires investments in both new operating models and new technologies.

Building on our deep industry expertise, we've strategically expanded our portfolio of offerings to serve the needs of nearly every role in the university President's leadership team as they collectively focus on advancing the institutional mission and planning for a sustainable, long-term future. We've hired several industry leaders whose experience further strengthens our position as the trusted advisor and partner of choice to our clients.

And as the needs of our clients continue to evolve, we're a unique partner in the higher education market, given the strength of our relationships, the diversity of our offerings, and the depth of our experience. That collectively positions us very well for continued solid growth in this business.

Now turning to the commercial segment, revenues declined 6% in the second quarter over the prior year quarter, reflecting softer demand for our digital offerings, partially offset by an increase in demand for our financial advisory offerings, which remained strong given the continued impact of challenging capital markets and expanding competitive pressures.

In our digital business, we continue to see our commercial clients taking a more cautious approach in executing large-scale initiatives and strategy-related engagements as uncertainties in the macro economic and political environments persist. Like many of our competitors in the IT services industry, we're seeing some delays in decision making and a slower pace of spending on our digital offerings.

We have confidence the softening of demand is temporary as our pipeline remains solid across our broad set of solutions and the underlying needs of our clients remain robust. We believe demand for digital offerings will return to their historic double-digit levels as macro economic pressures begin to abate.

The commercial segment is a key pillar of our enterprise growth strategy. We believe that a broad portfolio of digital, financial advisory, and strategy and innovation offerings, coupled with deepening industry expertise, will continue to be a solid platform for growth in this segment. We expect clients will continue to demand technology solutions delivered by our partners that can enable transformation of their businesses and strengthen their competitive advantages.

The breadth of our offerings and proven track record of delivering results positions us very well for continued growth for commercial segment over time. And we continue to see M&A opportunities that will complement and expand our capabilities and deepen our expertise in our industries of focus.

Let me make one final comment before turning to our outlook for the remainder of the year. One distinguishing feature of our business that drives significant value for shareholders is our strong free cash flow model. In the second quarter, we generated record cash flows while executing our balanced capital deployment strategy. We continue to manage the balance sheet in a manner that provides us with the flexibility and capacity to enhance returns to shareholders and to fund accretive M&A, which we continue to believe is an important part of our growth strategy.

And now finally, let me turn to our outlook. So the press release indicates we're narrowing our annual revenue guidance to $1.46 billion to $1.5 billion. And we're raising our annual adjusted EBITDA margin guidance by 25 basis points to a range of 13% to 13.5%. Finally, we're raising our full-year adjusted diluted earnings per share to a range of $5.85 to $6.15, which at the midpoint represents 22% growth over 2023.

We are narrowing our full-year revenue guidance to the lower half of our previously stated range due to the shorter-term softening of demand for our digital offerings in the commercial segment. Our full-year earnings guidance reflects our first-half performance and the scale efficiency we've made. And coupled with our team's discipline around expense management, we continue to make steady progress towards the medium-term financial goals set forth at our 2022 Investor Day.

As we enter the second half of our five-year strategy that we outlined at our 2022 Investor Day, I'm proud of what we've been able to accomplish in the market, with their clients, their business, and for our teams. Our record results in the second quarter of 2024 demonstrate our focus on achieving our strategic and financial goals. We believe we are well-positioned for continued growth in the years ahead with a strong client relationships we've built, the depth of our industry expertise, the balanced portfolio of offerings that will continue to evolve, and address our clients' most complex challenges.

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

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Thank you, Mark, and good afternoon, everyone. Before I begin, please note that I will be discussing non-GAAP financial measures such as EBITDA, adjusted EBITDA, adjusted net income, adjusted EPS, and free cash flow. Our press release, 10-Q, and investor relations page on the Huron website have reconciliations of these non-GAAP measures, the most comparable GAAP measures, along with the 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.

Before discussing our financial results for the quarter, I would like to acknowledge two housekeeping items. First, in the second quarter of 2024, we settled a litigation matter for $15 million, for which Huron was the plaintiff. This $15 million settlement gain was recorded as a component of other gains net on our consolidated statement of operations. We have excluded from our non-GAAP measures for $11.7 million, which is the value of the settlement gain that exceeds that third-party legal costs incurred during 2024 specific to this litigation matter.

Second, I want to make a comment on revenue generating professional headcount growth. Our year-over-year headcount growth 13% as of June 30, included the expansion of our India-based healthcare IT managed services team. Excluding the impact of the India-based managed services team, headcount growth was 6%.

Now, I'll share some of the key financial results from the second quarter. Revenues for the second quarter of 2024 were record high, achieving $371.7 million, up 7.2% from $346.8 million in the same quarter of 2023. The increase in revenues was driven by continued strength in demand for healthcare and education segments, and included a full-quarter contribution of $6.8 million from our GG+A acquisition, which closed during the first quarter of 2024.

Net income for the second quarter of 2024 was $37.5 million or $2.03 per diluted share compared to net income of $24.7 million or $1.27 per diluted share for the second quarter of 2023. The increase in net income was driven by the litigation settlement gain I mentioned earlier and revenues that outpaced expenses. Our effective income tax rate in the second quarter of 2024 was 28.1%, which is less favorable than the statutory rate inclusive of state income taxes, primarily due to certain non-deductible expense items.

Adjusted EBITDA was a record $55.7 million in Q2 2024 or 15% of revenues compared to $48.5 million or 14% of revenues in Q2 2023. The increase in adjusted EBITDA for the quarter was primarily due to the increase in segment operating income, excluding the impact of segment restructuring charges. We are proud of our progress in improving margins, and we remain confident in our ability to achieve full-year mid-teen margins in 2025, consistent with the goal we set forth in our 2022 Investor Day.

Adjusted net income was $30.9 million or a record $1.68 per diluted share in Q2 2024 compared to $27 million or $1.38 per diluted share in the second quarter of 2023, resulting in a 22% increase and adjusted diluted earnings per share over Q2 2023.

Now I'll discuss the performance of each of our operating segments. Healthcare segment generated 51% of total company revenues during the second quarter of 2024. This segment posted revenues of $190.1 million, up $16.3 million or 9.4% from the second quarter of 2023. The increase in revenues in the quarter reflects continued strong demand for digital performance improvement, culture and organizational excellence, and strategy and innovation offering.

Healthcare's digital and consulting and managed services capabilities grew 15% and 7%, respectively, in the second quarter, reflecting the continued broad-based demand for our offerings. Second quarter of 2024 included $17 million of favorable performance-based fee adjustments compared to $16 million of such adjustments in the second quarter of 2023. The ability to earn performance-based fees as we drive benefits for our clients is a favorable and ongoing attribute of our healthcare business. So the recognition of revenue for such adjustments can vary significantly quarter to quarter.

Operating margin for healthcare was 29.1% in Q2 2024 compared to 28.3% in Q2 2023. The increase in margin was primarily due to a decrease in contractor expenses, partially offset by an increase in compensation costs for our revenue-generating professionals as a percentage of revenues. The education segment generated 33% of total company revenues during the second quarter of 2024.

The education segment posted revenues of $122.8 million, up $12.1 million or 10.9% from the second quarter of 2023 and included $6.8 million from our acquisition of GG+A. The increase in revenues in the quarter was driven by increased demand for our strategy and operations in digital product offerings.

Education's consulting and managed services capability revenue grew 19% over the second quarter of 2023. The operating margin for education was 25.1% for Q2 2024 compared to 24.8% the same quarter in 2023. The increase in operating margin in the quarter was primarily driven by revenue growth that outpaced increase in compensation costs for our revenue-generating professionals and a decrease in contractor expenses, partially offset by an increase in compensation costs for our support personnel as a percentage of revenue.

The commercial segment generated 16% of total company revenues during the second quarter of 2024 and posted revenues of $58.8 million compared to $62.3 million in the second quarter of 2023. The decrease in revenues was driven by slower sales cycle for our digital offerings, partially offset by an increase in demand for our financial advisory offerings.

As Mark mentioned, despite the shorter-term softening of market demand for our digital offerings, we are confident in the long-term growth trajectory of the commercial segment as temporary macro headwinds ease and we fully capture the ongoing strength in our sales pipeline.

Operating margin for the commercial segment was 15.3% in Q2 2024 compared to 16.8% for the same quarter in 2023. The decrease in operating margin was driven by an increase in compensation costs for our revenue-generating professionals as a percentage of revenues, partially offset by decreases in restructuring charges and contractor expenses as a percentage of revenues.

Corporate expense is not allocated at the segment level, excluding the $15 million litigation settlement gain and corporate restructuring charges, were $45.6 million in Q2 2024 compared to $43 million in Q2 2023. Unallocated corporate expenses in the second quarter of 2024 and 2023 included $700,000 and $1.4 million, respectively, of expense related to the increase in the liability of our deferred compensation plan, which is offset by the investment gain and the assets used to fund that plan reflected in other income.

Excluding the impact of the deferred compensation plan in both periods, unallocated corporate expenses increased $3.2 million, primarily due to increases in software and data hosting expenses and compensation expense for our support personnel.

Now turning to the balance sheet and cash flows, cash flow from operations in the second quarter of 2024 was a record $107.2 million. In the quarter, we invested $9 million in capital expenditures, inclusive of internally developed software costs, resulting in free cash flow of $98.2 million.

DSO was 81 days at the close of the second quarter of 2024 compared to 91 days for the first quarter of 2024 and 77 days in the second quarter of 2023. Total debt as of June 30, 2024, with $511.6 million, consisting entirely of our senior bank debt. And we finished the quarter with cash of $17.6 million for net debt of $493.9 million. This was a $61.1 million decrease in net debt compared to Q1 of 2024.

Our leverage ratio, as defined in our senior bank agreement, was 2.2 times adjusted EBITDA as of June 30, 2024, consistent with the leverage ratio as of June 30, 2023. During the second quarter, we used $34.4 million to repurchase approximately 376,000 shares. Since the beginning of 2024, we have repurchased 1 million shares, representing 5.4% of our common stock outstanding as of December 31, 2023. As of June 30, 2024, $90 million remained available for share repurchases under our current share repurchase program.

We achieved record free cash flow in the second quarter of 2024 and continued to execute on our balanced capital deployment strategy. We believe the cumulative effect of our return to shareholders via share repurchases over the last several years has well positioned us for continued strong EPS expansion. At the same time, our balance sheet remains strong, providing us the capacity for continued share repurchases and accretive M&A.

Finally, let me turn to our guidance for the full-year 2024. As Mark mentioned, we are updating our full-year 2024 revenue and earnings guidance as follows: narrowing our revenues before reimbursable expenses guidance to a range of $1.46 billion to $1.5 billion, reflecting the lower half of our previous revenue guidance range; increasing our adjusted EBITDA as a percentage of revenue guidance to a range of 13% to 13.5%; and increasing our adjusted diluted earnings per share guidance to a range of $5.85 to $6.15.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Andrew Nicholas, William Blair & Company.

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

Hi, everyone. Good afternoon. I want to ask on a commercial weakness first. Mark, you're pretty confident in this being temporary weakness. Just curious if you could speak to what gives you that confidence and over what timeframe you would expect this to play itself out? Is it just a matter of getting through some difficult comps and some of these budget restrictions? Or is there any other catalyst you're looking for? And then somewhat relatedly, is the plan to let the foot off the gas a little bit on the headcount growth side until you start to see evidence of how those budgets dying out?

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

Yeah, Andrew. I would start with the reason for our confidence. It's really the pipeline itself. When we look at the kinds of projects that we're bidding on and the clients that are engaging us, we look at the size of that at historic levels and we feel confident that the demand is there and that really what we've got is delays in decision making. That to me, we've seen in other environments where there's a macro environment and we got the elections going on.

So we believe that, ultimately, there's -- the tailwinds are going to come back and we see signs from time to time, we're not ready to call that in the second half of the year. We have tapped the brakes on head count additions, but there's really -- we see nothing that really gives us any view of change in trajectory for the longer term.

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

And Andrew, I'll add. When we look at the guidance update and the lowering of the midpoint of our revenue guidance by $20 million, the majority of that actually relates to some of the softness that we experienced during the first six months of the year. When we look at the back half of the year and our projection for the back half of the year, which is supported by our pipeline by the backlog. That's actually much more consistent with the expectations that we had in the front half of the year. So I think we've already digested a significant component of the weakness that Mark was referring to.

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

And then, John, maybe to clarify that, that's specific to commercial you're saying in terms of growth consistent with --

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John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah.

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

Okay. Maybe that's a good segue then to just ask a follow-up on segment level expectations. You had given us your outline that for us on the fourth quarter call. First quarter was a little bit different somewhat with commercial. I think healthcare was a little bit better than you had thought, going after just three months. So if you could just outline maybe where segment level expectations are today relative to the fourth-quarter call, I think that would be some helpful additional context for the guidance changes.

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Sure, Andrew. I'll start with Healthcare. From a healthcare perspective, we're expecting the full-year growth rate at this point to be in the upper-single-digit to lower-double-digit range, so that's up from the mid- to upper-single-digit range back from the February call. And we still expect margins for healthcare to be in the 25% to 27% range.

From an education perspective, I was expecting revenues now for the full year to be in the low-double-digit range. I would describe it as a low-teen range on the call back in February. I think we still expect to be in the low-double-digit range. And there the margins, again, we expect to be in the 24% to 26% range, which is consistent from the February call.

And then from a commercial perspective, we're now expecting the full year to be relatively flat with last year. And that was an area where we expected at the outset of the year on low-double-digit growth. And the margins for this part of the business also remain unchanged in the 21%, 23% range.

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

Great. Thank you. And then if I could just squeeze one more in. I mean, some movement there at the segment level, but the margin outlook consistent at the segment level and also you were able to raise it for the full year. I mean, what gives you the ability to do that. Is it just really, really strong utilization trend? Is it plans to lower headcount growth in the back half of the year? And anything else that you would touch on, that would be great.

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah, Andrew. It's John. Our team has done an excellent job of really managing expenses throughout the first half of the year. For context, the attrition as we've talked about in the past couple of calls, has been much lower than what we anticipated beginning of the year, which means that careful stewardship by our teams has been all the more important. To your point about utilization as the year does go on, based on our forecast, we do expect utilization to continue to ramp up in the back half of the year. And so we think that's going to be another margin accretive item as we get towards the back half of the year.

And then finally, we mentioned the litigation settlement gain. Having those litigation expenses for that settlement fully behind us, at this point, that's another positive factor in terms of our full-year margin outlook.

Operator

Tobey Sommer, Truist Securities.

Tobey Sommer - *Truist Securities - Analyst*

Thank you. I wanted to ask a broad question about incremental margins. Can you achieve the mid-teens margin target for next year 15%, I guess, at this kind of revenue growth rate? Or do you need revenue growth to accelerate for that to be achievable?

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Tobey, it's John. We don't need revenue to accelerate beyond -- really, the revenue growth profile that you're seeing this year, just for the sake of discussion in order to continue to ramp forward that we see with margins for the full year next year. That's an area where -- when we look at the different levers that we have from a margin perspective, scaling our SG&A, continued deployment using our global delivery model, utilization some of the pricing initiatives that we have underway, we feel good that those individual levers, in fact, probably oversell the margin targets that we have out there, which of course, gives us some capacity to continue to invest in the business. So we feel good about our ability to continue to manage towards the margin targets in a variety of different revenue growth rates.

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

And Tobey, I'll add, I think, what is a very important addition to that, which is in our Managing Director compensation, the targets that we set, we really have built into everybody's objectives a margin component, which really is very important because many of the decisions that are made are really at the micro level by individual Managing Directors as they manage their engagements that have been sold and delivered.

And so that really has shifted up to a nice balance between not only revenue growth but making sure we preserve the profitability the bottom line. So the rate of growth on the topline certainly is very helpful when we look at the components contributed by leveraging SG&A, but there's many of the levers that we have that -- so we're not -- certainly not single-threaded around just the revenue growth.

Tobey Sommer - *Truist Securities - Analyst*

Within the education business and what you're seeing from customers there, there's certainly been news over the last -- the first half of the year with protests and potential impacts on fundraising, the delays with [Femsa] and impacts on enrollment and now like having to pay student athletes. Do those factors potentially alter the growth rate for the segment or like how does news flow today impact your outlook for the business in 12 months, so to speak?

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

It's a very fair question, just given a promise in the headlines that you're seeing. But really when you look at it, it's really centered around the office of the President. And as I mentioned even in my remarks, so much of our work is done with people within the President's cabinet, if you will, that -- and they all have responsibilities that are really tied to the improvements they need to make across their own institutions.

And so we have not really seen any kind of a impact out of that. Although we watch it, we monitor it. So at this point, it is not something that we're terribly concerned about. But just because we've had some degree of time already between now and when some of those initial challenges happen [in the IDs].

Tobey Sommer - *Truist Securities - Analyst*

Right. And then within the health care portfolio that you've broadened demand and can have services that can match a wider spectrum of healthy or sick conditions at hospital customers, how are you seeing the spectrum of demand evolve?

Several quarters ago, we had mostly performance improvement and the complexion of that seems to be shifting. How would you characterize the balance of demand and where it's strongest currently?

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

Yeah, I'll let John elaborate. But I would just say, as a general expectation, I think the areas that are -- first of all, I'd say the comments that we hear from our teams are the -- the margins are pretty razor thin. They're better. But it's not like there's a big [difference]. But there is definitely a barbell, if you will, of clients that are doing quite well and are being aggressive toward their growth. Those are the areas that they're investing in technology, in their digital solutions, some of the strategy areas, and financial advisory, things that are on the proactive growth side.

And yeah, we still see those systems that are really challenged with just headwinds around their competitive markets, the reimbursement models and the like. And so there's been a pretty healthy mix, but I would say leaning towards digital as the area that you're really seeing people within the systems leading into healthcare.

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah. And from the best -- from the market overview from - when you look at our pipeline, Tobey, it continues to be really well balanced. And so that segment of the market that's going through financial pressures right now, that's still driving significant demand for our performance improvement offerings. And our teams continue to relay back to us that it's a robust market for those types of offerings right now. And that's supported by the data that we see in our backlog and our pipeline.

Yet at the same time, the digital means that Mark just referred to also a big growth area. We also see a number of meaningful projects in the pipeline and opportunities related to that part of our business. So to your -- the way you asked the question about the trajectory of things, you're right, it was a performance improvement weighted pipeline last year. We talked about more balanced at the beginning of this year and I'd say we continue to see that balance at this point this year.

Tobey Sommer - *Truist Securities - Analyst*

Thank you. And then just on your headcount growth, particularly digital in your offshore operations, is it fair to assume that headcount growth is attached to sales already sort of consummated and in the bag as opposed to prospective sales in future quarters?

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah. I would say our digital -- what I referred to earlier in the call was our managed services team in India or global team for managed services. And yes, to answer your question, that team is related to projects that have already been sold and they're executing on those. And to broaden the question to our digital team, which is also based in India, they're largely deployed and have strong utilization on our ongoing digital projects as well.

Tobey Sommer - *Truist Securities - Analyst*

And then last numerical question for me. Will -- in the context of improving EBITDA margins and getting up to the mid-teens, does that have any implications or changes to the cash flow conversion or should the rules of thumb of the past hold true as the margins expand?

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

I think the rule of thumb should hold through from our perspective, Tobey.

Operator

Bill Sutherland, The Benchmark Company.

Bill Sutherland - *The Benchmark Company LLC - Analyst*

Thanks, everybody. I wanted to -- maybe, Mark, can you untangle -- not untangle but take apart the digital demand a little bit? Obviously, particularly interested in how you guys are participating in AI initiatives that health systems are increasingly taking on? I noticed one. One just announced a

Head of AI Projects. I think it was Cleveland. Anyway, just whatever you guys are doing there and kind of how much that is starting to move the needle?

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

Yeah, I would say it's still in the early innings, in general. But there's a tremendous amount of activity, Bill, to your point, and we're definitely seeing many, many organizations are piloting AI ideas before they're scaling them across the organization. And it's really true in education as well.

We do see some areas, as an example, in education, on the research side, that seem to be accelerating as well. I think for us, it continues to be upside, but we're very active not only in the healthcare, higher education, and certainly, in the commercial markets as well. We see a lot of activity going on. So I think we feel like we're well-positioned. We're very aggressive and active in the marketplace and we're getting very good response from clients as we work with them.

Bill Sutherland - *The Benchmark Company LLC - Analyst*

And you're able to build up the bench in terms of AI credentials?

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

Yeah, there's -- the issue of -- we're not going out and meeting the higher deep data scientists, but people who have prompt engineering backgrounds and other types of skills, we have not found an issue finding the right numbers of people that we need to scale. And then internally, we're also using AI too at a greater level as we look at our own delivery methodologies as well. So it's very pervasive, I would say, increasing in scope and scale.

Bill Sutherland - *The Benchmark Company LLC - Analyst*

That was my follow-up, actually was to what degree are you seeing or hope to see benefit on margin in terms of implementing AI?

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

Yeah, we're not dependent on it in the sense that while there's -- we don't automate things, we're not going to be able to achieve our goals. But feel like it's certainly -- I take AI and expand that to really the whole concept of automation in general because there's a lot more beyond just AI what we can benefit from collectively. And so we do think that will ultimately become an increasing benefit for us as we look ahead to 2025, as an example.

Bill Sutherland - *The Benchmark Company LLC - Analyst*

I missed -- John, I missed what you said -- this is a couple of housekeeping. What GG+A contributed?

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

It was $6.8 million for the quarter, Bill.

Bill Sutherland - *The Benchmark Company LLC - Analyst*

$6.8 million.

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yes, correct.

Bill Sutherland - *The Benchmark Company LLC - Analyst*

And then, did you discuss the interest expense as it's presented to the second quarter? And what -- I'm kind of wondering about the size of [value] and what -- how to think about the next few quarters?

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

So the second quarter from an interest expense perspective is really our high watermark, Bill. If you think about it, we pay out the annual incentives in mid-March,. So you really get the full higher borrowing levels for a full quarter in the second quarter. You can see based on what we discussed from a free cash flow perspective, we had some really nice paydown of our debt as the quarter progressed. We expect that trend to continue in the third and fourth quarter. And so that really should be the high watermark. I would think of the back half of the year probably mean more all in kind of a $10 million range.

Operator

(Operator Instructions) Kevin Steinke, Barrington Research.

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

Thanks. So as you mentioned in your prepared remarks, the full-year revenue guidance still continues to imply sequential revenue growth in the second half of 2024, looking specifically at commercial. To get to that relatively flat outlook, it looks like you have to have some pretty nice sequential revenue growth in commercial specifically. So can you comment on that? Is that correct? And if so, what would drive that as some of the pipeline beginning to move that's currently being pushed out? Or what would lead to that?

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

That's right, Kevin. You named it. It's the pipeline converting to hard backlog now in the back half of the year. I think that's true both from a digital perspective as well as a consulting perspective within the commercial segment. So our teams have had some really nice conversion on the consulting side as well from a distressed financial advisory perspective. And so we're entering a period of higher run rate on some of those projects during the third and fourth quarter.

And then on top of that, some of the delays that we've seen in pipeline and the slower sales cycle on the digital side, our expectation is that we have more conversions there in the back half of the year too that firms up the digital side as well.

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

Okay. That's helpful. And then looking at healthcare, the increase to the full-year 2024 growth expectations for that segment, can you just maybe comment on what's trended a bit better than you would have expected at the outset of the year that enabled you to increase that outlook for health care?

John Kelly - *Huron Consulting Group Inc - Chief Financial Officer, Executive Vice President, Treasurer*

It's been broad-based, Kevin, within the healthcare segment, and it goes back to that conversation we had a couple of minutes ago about the pipeline and where we've been seeing demand. So I think from a performance improvement perspective, we continue to see some really strong demand from our clients there in terms of needing help from a margin improvement perspective. And so that I think has been a positive item relative to our beginning of the year expectations.

But then also on the digital side of the shop, and that probably relates to the to the customers at the other end of the spectrum who are feeling like they're in a stronger financial position than they were a year ago. Those clients and their investments in digital has been stronger than we expected as well. So I'd say it's a story of balance, both in terms of the pipeline but then also in terms of the improvement in our guidance versus what our beginning of the year expectations were.

Operator

Thank you. Seeing no more questions in the queue, I'd like to turn the call back to Mr. Hussey.

C. Mark Hussey - *Huron Consulting Group Inc - President, Chief Executive Officer, Director*

Well, thanks everyone for spending time with us this afternoon. We look forward to speaking with you again in October when we announce our third-quarter results. Have a good evening.