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HURN - Q3 2019 Huron Consulting Group Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Huron Consulting Group's webcast to discuss financial results for the third quarter 2019. (Operator Instructions) As a reminder, this conference call is being recorded.

Before we begin, I would like to point all of you -- point to all of you 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 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 on Huron's website for all of the disclosures required by the SEC, including reconciliation to the most comparable GAAP numbers.

And now, I'd 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 third quarter 2019 earnings call. With me today is John Kelly, our Chief Financial Officer; and Mark Hussey, our President and Chief Operating Officer.

Huron delivered 11% organic revenue growth in the third quarter. Our strong third quarter performance was driven by continued organic growth across all 3 operating segments. This is the sixth consecutive quarter where we have delivered year-over-year organic revenue growth. 2 years ago, we developed a strategic plan aimed at transforming our business to respond to the substantial change that continues to take place in our primary markets.

The focus of this plan was to make sure that we were innovative in evolving our services, such that we would be successful in helping our clients anticipate and manage through the significant change in their own businesses.

Examples of successful innovation are visible in all of our segments, and I believe that these new services, along with the success of our core offerings, form the foundation for continued organic growth.

I will now provide a brief overview of the performance for each segment, and then John will add color to the financials.

Let me begin with Healthcare. During the third quarter, Healthcare segment revenues grew 11% compared to the prior year quarter. The quarter-over-quarter growth was driven by continued strong results in our performance improvement business.

Our health system and academic health center clients continue to face a challenging environment as the market becomes more competitive.

Our clients are in search of new revenue sources, increased operating and clinical efficiency and the ability to leverage technology to improve performance.

We continue to believe that our new and evolving offerings are well positioned to meet this demand for our clients. We have spoken in recent quarters about our successful efforts in diversifying the range of offerings within our Healthcare business, reflecting the changing nature of the health and healthcare environment and the changing needs of our clients.

A recent example of how we are evolving our core business beyond our traditional offerings relates to our revenue cycle solution. Our long-standing relationship with Adventist Health has led to discussions we are having to establish a managed services model to support their revenue cycle operations.

The transition to Huron is currently expected to begin in November, once we have finalized the contract. As part of this transition, we will lead and manage the administrative functions related to revenue cycle operations for Adventist Health. In conjunction with the anticipated transition, we will onboard approximately 100 managers as they continue to oversee the broader Adventist revenue cycle team.

We are excited about the prospect of establishing this new relationship with Adventist as we continue to enhance our offerings in support of the changing needs of our clients.

Today, we also announced the strategic investment in, and new partnership with, Medically Home. Medically Home partners with health systems and all supportive stakeholders to safely shift advanced care from hospitals to patient homes, utilizing innovative clinical and technological infrastructure.

The company's unique model is a physician-led and nurse-powered medical command center that provides centralized, on-demand acute medical care management in a home setting.

When appropriate, receiving care at home can lead to higher-quality care at a lower cost in an environment more conducive for patient recovery.

As a part of our new relationship, we have become a strategic implementation partner to Medically Home. Our role in supporting the implementations leverages our core strengths, focusing on areas, including, but not limited to, command center configuration, acute rapid response, supply chain implementation, managed care strategy and project management.

We believe that with our new and evolving offerings, we can help our clients strategically and operationally address the many challenges facing the healthcare industry.

The Business Advisory segment continued to perform well during the quarter, growing 9% organically over Q3 2018. Growth in the quarter was driven by the ES&A, Business Advisory and Life Sciences businesses.

We remain focused on growing our commercial sector businesses, particularly in the financial services, life sciences, energy and utilities and manufacturing industries.

We believe we have a meaningful competitive advantage, given our scale and ability to collaborate, combining our strategy, technology and operational competencies with our strong industry expertise. We believe the Business Advisory segment will continue to be a driver of growth for Huron as we expand our commercial competencies.

In the Business Advisory segment, we are also focused on collaboration within our core industries of healthcare and higher education. In the first 9 months of 2019, the Business Advisory segment generated 33% of its total revenues in the healthcare and education industries. Year-to-date, Business Advisory segment revenues generated in healthcare and education industries are up 21% over the same period in 2018.

Turning now to Education. Education segment revenues in Q3 2019 grew 12% over the same period in 2018. The strong quarter-over-quarter growth was led primarily by our research in cloud ERP solutions. At the end of 2019, we anticipate this business will achieve 5 consecutive years of double-digit percentage organic revenue growth. And we believe we remain well positioned in the market as our higher education clients continue to face unprecedented strategic, financial, and operational challenges.

We've accelerated the hiring of resources in our Education business in areas we believe will drive future growth so we can capitalize on market opportunities as we position ourselves for continued growth in 2020.

Finally, let me turn to our outlook for the year. As our press release indicates, we are increasing our annual revenue guidance to $850 million to $865 million and narrowing our adjusted EBITDA guidance in a range of 12% to 12.3% of revenues.

We now expect an increase in adjusted diluted earnings per share in a range of 20% to 27% over 2018.

We raised our revenue guidance to reflect the current and anticipated demand for our services for the remainder of the year. We narrowed our adjusted EBITDA range while increasing our adjusted EPS range as we continued to drive operational efficiencies and managed expenses, while still investing in our capacity to deliver strong organic growth.

We believe we are continuing to build a solid foundation from which we can grow revenue, margins and earnings. We are in the midst of our 2020 planning process and are focusing on prioritizing investments that we believe will support our future growth.

We have, and we'll continue to, invest in areas that we believe will drive organic revenue growth across all 3 segments. We will also invest in technology infrastructure that we believe will increase productivity and drive efficiency across our client-facing and corporate activities.

These investments align with our long-term financial strategy of achieving sustainable organic growth and improved profitability over time.

Finally, we are obviously pleased with our solid performance so far this year. I'm fortunate to be working with an incredibly talented team of people across all of our practices and in our corporate departments that share our vision and passion for helping our clients to successfully growing this company. Without their efforts, none of this would be possible.

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

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

Thank you, Jim, and good afternoon, everyone. Before I begin, please note that I will be discussing non-GAAP financial measures, such as EBITDA, adjusted EBITDA, adjusted net income, adjusted EPS and free cash flow.

Our press release, 10-Q, Investor Relations page on the Huron website have reconciliations of these non-GAAP measures to 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.

Also, my comments today are all on a continuing operations basis. Now let me walk you through some of the key financial results for the quarter.

Revenues for the third quarter of 2019 were $219.3 million, up 10.5% from $198.4 million in the same quarter of 2018.

The increase in revenues in the quarter was driven by solid organic growth across all 3 operating segments.

Net income was $13.7 million or $0.61 per diluted share in the third quarter of 2019 compared to $8.2 million or $0.37 per diluted share in the same quarter in the prior year.

Our effective income tax rate in the third quarter of 2019 was 15% compared to 14.4% a year ago. Our effective tax rate for Q3 of 2019 was more favorable than the statutory rate, inclusive of state income taxes, primarily due to discrete tax benefits for U.S. federal return and provision adjustments related to the 2018 corporate income tax return and the previously unrecognized benefit due to the exploration of statute of limitations on our check-the-box election made in 2015 to treat wholly owned foreign subsidiaries as disregarded entities for U.S. federal income tax purposes.

Adjusted EBITDA was $28.8 million in Q3 2019 or 13.1% of revenues compared to $24.7 million in Q3 2018 or 12.5% of revenues.

Adjusted non-GAAP net income was $17.7 million or $0.79 per diluted share in the third quarter of 2019 compared to $14.1 million or $0.64 per diluted share in the same period of 2018.

Now I'll make a few comments about the performance of each of our operating segments. The Healthcare segment generated 46% of total company revenues during the third quarter of 2019. This segment posted revenues of $100 million for the third quarter of 2019, up $9.6 million or 10.6% from the third quarter of 2018. The increase in revenue was driven by demand in our performance improvement business. Performance-based fees in Q3 2019 were $16.3 million compared to $8.4 million in the same quarter last year.

Our full year expectation for the range of performance-based fees remains $60 million to $70 million. Operating income margin for Healthcare was 32.9% for Q3 2019 compared to 29.5% for the same quarter in 2018. The year-over-year increase in margin was primarily due to revenue growth that outpaced expenses. We continue to expect Healthcare segment operating margins to be in the 30% to 32% range for full year 2019.

The Business Advisory segment generated 28% of total company revenues during the third quarter of 2019. The segment posted revenues of $62.5 million in Q3 2019, up $5.3 million or 9.3% from the third quarter of 2018. The increase in revenue during the third quarter was driven by the ES&A, Business Advisory and Life Sciences businesses.

The operating income margin for the Business Advisory segment was 19.1% for Q3 2019 compared to 20.7% for the same quarter in 2018. The decrease in operating margin was primarily attributable to increases in salaries and related expenses, performance bonuses and share-based compensation expense for our revenue-generating professionals. We continue to expect the Business Advisory segment operating margin to be in the 20% to 22% range for full year 2019.

The Education segment generated 26% of total company revenues during the third quarter of 2019. The segment posted record revenues of $56.8 million in Q3 2019, up $5.9 million or 11.6% from the third quarter of 2018. The increase in revenue was driven by our research in cloud ERP solutions.

The operating income margin for Education was 25.4% for Q3 2019 compared to 29.5% for the same quarter in 2018. The decrease in operating margin was primarily attributable to increases in salaries and related expenses, performance bonuses and share-based compensation expense for our revenue-generating professionals as well as increased contractor expenses.

We continue to expect Education segment operating margins to be in the 24% to 26% range for full year 2019.

Other corporate expenses, not allocated at the segment level, were $32.3 million in Q3 2019 compared with $30.5 million in Q3 2018. The Q3 2019 total includes $600,000 of transaction-related expenses and an increase in salaries and related expenses, including share-based compensation expense for our support personnel.

Now turning to the balance sheet and cash flows. DSO came in at 70 days for the third quarter of 2019 compared to 67 days for the second quarter of 2019. The increase in DSO primarily reflects the impact of increased WIP on certain Healthcare engagements where the contractual scheduled billings on revenue recognized through September 30th will occur in the fourth quarter and early 2020. We now expect DSO to be approximately 65 days by the end of 2019.

Total debt as of September 30, 2019, includes the $250 million face value of convertible notes, $50 million in senior bank debt and a $4 million promissory note for total debt of $304 million. We finished the quarter with cash of $49.4 million for net debt of $235 million. This was a $46 million decrease compared to Q2 of 2019. Our leverage ratio, as defined in our senior bank agreement, was 2.4x trailing 12-month adjusted EBITDA at the end of Q3 2019 compared to 2.6x trailing 12-month adjusted EBITDA as of June 30, 2019.

On October 1, we used our revolving credit facility and approximately $33 million of cash on hand to pay off our convertible notes. Our pro forma leverage on October 1, as defined in our senior bank agreement, was 2.2x our trailing 12-month adjusted EBITDA.

Cash flow generated from operations in the third quarter of 2019 was $58 million. And we used $6.7 million of our cash to invest in capital expenditures, inclusive of internally developed software costs, resulting in free cash flow of $51.3 million.

During the third quarter, we amended and extended our revolving credit facility. The amendment increased our borrowing capacity to $600 million, extended the term until the third quarter of 2024, improved pricing and provided additional covenant flexibility. The amendment agreement provides ample capacity and flexibility to pursue a balanced capital deployment approach, consistent with our sustainable growth strategy. In terms of our balanced capital deployment approach, our primary focus is on reducing our borrowings and driving our leverage ratio, as defined in our senior bank agreement, below 2x adjusted EBITDA. We also anticipate deploying cash on share repurchases to offset the annual share-based dilution created by our share-based compensation programs. To the extent that there are strategic tuck-in acquisition or investment opportunities with a direct connection to our strategy and a strong financial return profile, we will also consider those opportunities.

Finally, we do expect increased balance sheet investment in technology infrastructure, both to support our revenue-generating data and analytics capabilities and also to support our internal operations as we grow, continue to work collaboratively across practices and establish new business models.

As Jim noted, we are raising our full year 2019 revenue guidance to $850 million to $865 million.

In addition, we are narrowing our full year adjusted EBITDA guidance to be in the range of 12% to 12.3% of revenues and now anticipate an increase in full year adjusted non-GAAP diluted earnings per share in a range of 20% to 27% over full year 2018.

Finally, we now expect our full year effective tax rate to be approximately 25%.

We continue to expect cash flows from operations for the year to be in the range of $100 million to $110 million. We expect capital expenditures for the year, inclusive of internally developed software costs, to be approximately $20 million to $24 million and free cash flow for the year to be in a range of $80 million to $90 million net of taxes and interest and excluding noncash stock compensation.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Tobey Sommer with SunTrust.

Tobey O'Brien Sommer - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Could you expand a little bit on the revenue cycle business and the relationship sort of the term and profit profile that you see unfolding over time?

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

Sure, Tobey. I'll start it off, and then Jim or Mark may add some color. So, the contract -- we should note, Jim mentioned on the call that we're still finalizing all the details on the contract. But the contract's going to include both the managed services component as well as our performance-based incentive component. And that performance-based incentive component is going to be based on the financial and operational improvements that we're able to drive in collaboration with the client. So, based on the size of the client environment, as Jim noted, we expect that we'll be taking on nearly 100 employees in the combination of both of those components of managed services and the performance part of it. We're expecting this job on an annual basis to be larger than a typical large, integrated performance improvement-type project. The exact size is going to depend on how much incentives we're able to drive. But I think in a minimum, it's probably going to be in the neighborhood of $30 million a year contract. We expect the contribution margin on it probably to be slightly lower than a typical performance improvement project, given the overall mix, including the managed services component. But we're not expecting it to cause any significant changes to our overall Healthcare margins. It's going to be a multiyear contract, significantly longer than one of our typical performance improvement contracts, which is just reflective of the deep partnership that we have on the client with this. So, just specifically thinking about 2020, I think we just want to be cautious because we're still in the midst of the 2020 planning cycle. And I think it's important to probably look at this in the context of our full outlook when we give that in February. But then the other important thing I'd note is this client was a client of ours in 2019 as well, so it's not going to all be incremental in 2020.

Tobey O'Brien Sommer - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Okay. Does this represent a new sales initiative, a new kind of line of business, such that you'll be pursuing other relationships similar to this to gain scale and maybe improve that incremental that kind of project-level profitability?

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

Tobey, this is Jim. I'll respond to that. We do think there's prospects for having additional relationships like this in the future for us. I think, probably more importantly, and it's not just in Healthcare, it's all across all of our businesses, we are looking for opportunities to help our clients really help them change the way that they are running their businesses and help us -- help them kind of think through how to maneuver through a very competitive and transitory environment, and this is true in financial services, this is true in healthcare, this is true in Education. And so, as their environment continues to change, we are doing the best we can to continue to provide the kind of services, both from a technology perspective and a project management perspective and an operational perspective to help them maneuver though this change.

We've said this before, but there is so much transition taking place in our clients' environments. And we feel really good about the way that we've positioned ourselves to be able to be of assistance to them as their needs evolve. And so that's really what this is doing. This is a natural evolution for us in many respects. And in this case, we know revenue cycle so well, and we have a circumstance where our client just wanted more of our project management support over the entire revenue cycle operation as opposed to it being more of just a point-type of solution. So, we feel really good about this, and I think you'll probably begin to see more things like this, not only in Healthcare but also as we continue to expand our offerings in our other services as well.

Tobey O'Brien Sommer - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Okay. Is this reflective of a broader push to increase the proportion of recurring services? Or am I going a bridge too far on that?

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

It certainly is an attribute of this, but I don't think that that's our primary objective. Our primary objective is to really help our clients sort out ways for them to best -- address their issues, their operational challenges. I think the fact that this has some ongoing revenue opportunities for us is certainly a positive for us, but it's not the primary objective for us.

Tobey O'Brien Sommer - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Okay. Then two things I want to touch on the Education business. It sounded like you were describing a ramp or acceleration in internal hiring. Maybe give me some context, if I heard that correctly. And then what does the horizon look like for a catalyst of demand, particularly on sort of cloud implementations as the major software vendors come out with kind of more significant education modules?

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

So, I'll answer the second one first, Tobey. Clearly, a lot of our growth both in FTEs but also in revenue has been coming from our cloud-based solutions across multiple vendors in Education. And so, I think you're going to continue to see that. We've -- most of the work that we've done so far has been around financials and HCM with different vendors in the education space. As we've been talking about for the last 1.5 years or 2, we expect to have a ramp-up in the student part of the cloud solution as well. The current maturity of the product remains a little bit behind. And so, we're having to wait a little bit on that. That's affected more of our larger research universities. To a lesser extent, it's affected some of the smaller, less complex institutions. But I think what you're seeing right now is we have very high aspirations for continued growth as the education market continues to transition to the cloud. We think we're well positioned across the multiple channels. And I think you'll continue to see that as being one of the primary drivers for our growth in this business.

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

And Tobey, this is John. I'll just add. We have been hiring during the back half of the year, third quarter and into the fourth quarter, really reflective of some of that anticipated demand that Jim's describing. So that's been something that we've been doing to build up the team. And really, the other thing I'd note, if you look across the board, so even beyond the Education segment, but if you look at all 3 segments, there is notable increases in headcount this quarter versus last quarter. That's reflective of our view of demand in the different parts of the business, but also it is the quarter when we do a lot of our campus hiring and we have a lot of headcount coming from that recruiting route. So just some extra color there.

Operator

(Operator Instructions) And our next question comes from Kevin Steinke with Barrington Research.

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

So you, again, cited your collaboration efforts across segments in terms of serving more healthcare and education clients with your Business Advisory offerings, I think, is up to 33% of that segment's revenue in the first 9 months. Is there a particular goal you have with regard to what percent of revenue you'd like to see in Business Advisory coming from Healthcare and Education? Or should we just kind of expect that to continue to incrementally creeping up as a percentage as you focus your efforts there?

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

Yes. Kevin, this is Jim. It's interesting. I don't think we have a goal in mind. I mean to some extent, it's more -- the reason we highlight it is this is more reflective of I think some competitive advantages that we have in terms of being able to take the kind of competencies that we have in the Business Advisory segment, I mean, particularly around strategy and technology and bringing them into our core industries of health and education. And I think that combination has been really successful for us as what our clients are demanding. And the reason we highlight it is I think it's just one of the strengths that Huron has in terms of our ability to not just collaborate in theory but actually to get it done. So, there is a part of me that actually love -- would love to see that percentage go down because it would simply mean that the commercial part of our businesses continue to grow, and we absolutely expect that to be happening. So it's less about us achieving some type of percentage level on a higher percentage and more of our intent being just to be able to demonstrate the fact that we have, what I think is, the ability to work across our organizational boundaries to deliver results in ways that are resonating with our clients.

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

Okay. Great. Got it. Thank you. You might've touched on it a bit or maybe I missed it. But can you just maybe discuss the various practices within the Business Advisory segment performed in the quarter? What maybe really stood out in terms of performance there?

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

Sure, Kevin. This is John. I'm happy to take that. If you look in, in the third quarter from a revenue perspective, we had some nice growth, really in our ES&A segment from a technology perspective as well as within the Legacy Business Advisory part of the business, which is kind of a traditional stressed part of the business. They've been really strong throughout the year and particularly during the third quarter, they were very highly utilized. Innosight was down about $3 million, if we're looking at the third quarter of this year versus the third quarter of last year. They're -- we're continuing to be encouraged by their pipeline and the opportunities that they're seeing. It's very large and prestigious clients. I think from the beginning, we've always described this business as one that's going to be a little bit lumpy relative to its size. Relative to their size they tend to have a smaller number of bigger jobs so that dollar amount I gave that could be literally a job or 2. And they also had a tough comparison to a very strong third quarter last year. And there's going to be a little bit of that effect when we look at the fourth quarter, too, because they had a very strong fourth quarter last year, too. And then Life Sciences also grew during the quarter, generally in line with our expectations.

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

Okay. Thanks. That's helpful. And you mentioned the legacy practice having strong performance there. I mean, do you see any significant pickup in financial distress due to economic conditions happening among your client base within Business Advisory, specifically for their practice? Or are they just kind of on a roll with winning new work? Just any color there might be helpful.

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

Kevin, this is Jim. I think they're probably on a roll in an environment that has a lot of distress in it right now. And I think it's an indication just as the market speaks, there's lots of competition out there and the fact that the market is challenged, I mean, there is a lot of distress out there, and they come to us for those solutions. This group was extraordinarily busy this past third quarter. And I think it's just reflective of the fact that they've got a really great reputation and they can deliver some pretty sound results. So, I think that market -- I think we continue to think that, that type of distress situation, particularly in the middle market area, it's been pretty stressed and I think will continue benefit us as we go forward.

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

Okay. Got it. And could you just maybe talk a little bit more about the partnership with Medically Home, strategic implementation partner relationship there? I mean, and what you are hearing from your clients or the demand you're seeing from clients for that service that led you to enter into that partnership?

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

Yes. So, I'll tell you what's driving this. We've -- as we've talked about for a long time, I think the way that care is being provided continues to change. We still talk about kind of the commercialization of healthcare. And that has being done like at your corner drugstore. Well this is I think just another continued avenue for healthcare to be delivered. There is no question that all things being equal, and they are not, but all things being equal, you're better off probably in many cases being treated at home if it's medically appropriate and feasible. And so, there's certain services that could easily be performed in a hospital, but I think it's probably lower-cost environment in the home. I think there is -- there are examples where it's much better for the patient and the caregivers. So, it doesn't -- it's not applicable on all circumstances, but when it is applicable, I think there is some significant cost and quality opportunities. And so, Medically Home is really trying to work with the hospitals. And to go back and basically say, if there is an opportunity for us to effectively treat a patient at home, let's work together. So, this is not competing with the hospitals, this is working with the hospitals to deliver this type of service to -- in the patient's home. And so, I think this is inevitable in terms of the direction that this is going to be going. Scaling this business is hard, and Medically Home, we think, has a model that's really well thought out and has already begin to indicate the fact that they can in fact scale. And we're going to actually -- that's part of our role is really to be helping them scale the business and pull together the infrastructure that's going to be necessary to do that.

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

Okay. Great. In terms of the adjusted EBITDA margin guidance, it just came down, a touch on the high end. John, just any thoughts on that piece of the guidance?

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

I attribute it to really 2 main factors, Kevin. First, we do continue to hire at a very strong pace reflective of the demand that we see in -- really across our markets. So, I think the way it's working out this year, we've been adding that headcount at a strong pace. I think we -- that -- the headcount, it's helping to drive revenue that's at least covering the cost of those heads, but we're probably not at full utilization and full incremental margins rate on that hiring yet. So, I think that has a little bit of a dampening effect on the 2019 full year margins. And then secondly, just probably a little bit of mix in there, too, when we talk about the Business Advisory segment, I'd say, if you're looking from an overall perspective, ES&A has grown at a faster pace than what we anticipated at the beginning of the year. And Innosight, I mentioned, they had a tough comp in the third quarter this year and potentially in the fourth quarter as well. So, I'd say the net of all that has put a little bit of pressure on the margins, and that's why we brought the midpoint of the EBITDA margin percent guidance down by that 10 basis points.

Operator

And our next question comes from Andrew Nicholas with William Blair.

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

Just wanted to touch a little bit first on Healthcare. Hoping you could provide a little bit more color on the makeup of growth in the period. I know you mentioned a few times the strength in performance improvement drove the good quarter, but if you could maybe speak to revenue cycle and Studer, and some of the other pieces of that business and how they performed in the period?

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

Sure, Andrew. I can start. Jim and Mark can add any color to it. I'd say from a -- performance improvement was certainly the strongest business within our Healthcare segment during the quarter. They had really nice growth year-over-year. How we characterize that growth within the performance improvement is balanced amongst the different offerings within performance improvement. Certainly, from a revenue cycle perspective, it continues to remain a robust market. We continue to have some nice growth in that area. But like we talked about on prior calls, it's more than just revenue cycle. Really across the board within performance improvement, we're seeing solid demand really within all the different areas of that offering. I would say Studer Group was generally in line with the expectations that we set out beginning of the year. And then our technology group was down by a couple of million bucks during the quarter. We don't think that there's anything structural about that. We think it was just a little bit of a softer quarter. And when we look at the opportunities in the pipeline, we feel good about that business and where it's trending. But it was really -- certainly the offerings within performance improvement that drove the growth in the quarter.

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

Great. That's helpful. Thank you. And then just in terms of stepping back and looking at the business as a whole, any comment that you'd make on kind of the size of the projects you're seeing, both in the quarter and looking at your existing pipeline? Is it still trending towards smaller projects as a whole? Or are there other bigger pieces that you're seeing pop up? Just any update there would be helpful.

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

So it's certainly still smaller jobs than what we saw several years ago from a performance improvement perspective. I think as we've discussed as the year evolved on those, there have been some medium-sized to larger-sized jobs that we've seen as -- our clients had demand for our services in those areas. So, I'll tell you it's been modestly trending a little bit higher, but I'd say we're still in an environment where the jobs are on average much smaller than they were several years ago.

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

Got it. And then just last one from me. Just in terms of fourth quarter guidance, is the revenue cycle with Adventist embedded in there at all? Or is the fact that, that hasn't officially kind of been signed, I mean, that could be an area of upside?

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

So it is -- it's embedded in the guidance, Andrew.

Operator

And we have a follow-up from Tobey Sommer with SunTrust.

Tobey O'Brien Sommer - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Could you expand upon your description in the prepared remarks of increased tech investments? I'm curious about that. And then secondly, a separate question. Could you comment about the capital deployment? I think you referenced balanced. But in the prior quarter, you had some professional fees associated with looking at a potential acquisition and then made an investment this quarter. So, just kind of want to get your update on the tendency towards organic growth rather than inorganic.

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

Sure, Tobey. I'm happy to take both of those. So, from a technology perspective, technology investment perspective, I'd say it's generally across the board we're making investments. We noted in the prepared remarks, and we continue to make investments in our analytics platform, which is a tool that we use to help drive -- enable our consulting engagements and drive insights for our clients. I mean, that's something that we're pretty excited about as something that's really going to enhance some of our consulting offerings. We also are making an investment in our internal technology infrastructure. There's a few components to that, but the biggest one is we are upgrading our ERP system to consolidate tools across different areas, like HR and finance and to drive some more functionality. That's really going to enable our strategy. So that's -- those would be the big-ticket items that we were talking about.

Tobey O'Brien Sommer - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

One last follow-up on the revenue cycle and the Adventist relationship. What's the company's competitive advantage compared to firms that have been in the outsourced revenue cycle business for a long time?

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

Tobey, this is Jim. I think we happen to know that revenue cycle business, I think, as well as anybody. I mean, I think that's really what it boils down to, nothing more. The fact is that Adventist has been a good client of ours for a long period of time across a variety of services. And the reality is that when -- it's obviously the revenue cycle, part of this is a huge component for any health system, let alone Adventist. And I think to put your trust and confidence in the management of that critical part of the business, you want to do -- you want to be doing something with somebody that you a, have confidence in; and, b, somebody that you know really knows your business well. And I think that's what it is with us. We really have -- we felt really good about our relationship with Adventist. It's just a great organization. It's run very well. And we're just really proud of the fact that they'd come to us with this really important part of their business.

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

And Tobey, I just realized I inadvertently did not answer your second question, which was on the capital deployment strategy. And I'll just circle back on that real quick. The -- we're -- our strategy is around organic revenue growth. That's our primary focus. Like we've mentioned on prior calls, to the extent that there is a tuck-in-type investment or acquisition where we think it can be incremental to the business, either because it's giving us an immediate assembled talented team or some capabilities that otherwise we have to go out and try to organically hire in the market and can get to market quicker with it. That might be an area where we look at it. But that's all going to be in the context of the overall strategy, which is organic. So, I'd still kind of view it in that lens, and that's part of what we mean by the balanced capital deployment strategies. We're open to that, but the focus will be on organic revenue growth.

Operator

(Operator Instructions) And I'm showing no further questions at this time. I'd like to turn the call back to Mr. Jim Roth for any closing remarks.

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

Thank you very much for spending time with us this afternoon. We look forward to speaking with you again in February when we announce our fourth quarter results. Have a good evening.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for everyone's participation. You may now all disconnect and have a great day.
