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HURN - Q2 2016 Huron Consulting Group Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to Huron Consulting Group's webcast to discuss financial results for the second quarter 2016.

(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 Jim Roth, Chief Executive Officer and President of Huron Consulting Group. Mr. Roth, please go ahead.

James Roth - *Huron Consulting Group Inc. - CEO & President*

Good afternoon and welcome to Huron Consulting Group's second quarter 2016 earnings conference call. With me today is Mark Hussey, our Chief Operating Officer and Chief Financial Officer. Our second quarter results reflected strong performance from our Education and Life Sciences and Business Advisory segments, while our Healthcare business continued to experience some softness consistent with trends that we have seen over recent quarters.

Let me provide some color on the Q2 performance for each of our segments and then add our perspective for the rest of the year. I will then turn it over to Mark so he can walk you through the financials. I will begin with Healthcare.

During the second quarter, Healthcare revenues declined approximately 10% compared to the second quarter of last year and were down 7% sequentially. The sequential decline was roughly split between our Cost & Clinical and Revenue Cycle solutions. On a year-to-date basis, organic Healthcare revenues were down approximately 3.5% over the first half of 2015.

On recent earning calls, we discussed changes impacting our Healthcare business, including softness in the pipeline for fully integrated projects, a shift in clients' buying patterns to more solution specific engagements, and the need to reposition our offerings to respond to changing demand for our services.

In the second quarter, our Revenue Cycle solution faced some of the same market conditions that our Cost & Clinical solution has recently experienced. Our clients are procuring more discrete projects as they begin to optimize their EHR systems to manage revenue cycle workflows. We have been preparing for this shift and our efforts position us to offer a full range of services to support our clients' revenue cycle needs, whether through stand-alone revenue cycle engagements, EHR optimization projects, or a hybrid approach.

To respond to the changing market for both our Cost & Clinical and Revenue Cycle solutions, we are continuing to modify our go-to-market strategy and resources to align with our clients' needs. We are evolving new sales and delivery models that are designed to further differentiate our Healthcare business in this dynamic market.

As I have indicated on prior calls, while this requires more work for our sales teams, we are servicing a larger volume of healthcare client engagements than we have had traditionally, which means we are on-site at more healthcare providers at any given time. In an environment of ongoing transition for our clients, having continual presence at more hospitals and health systems provides us with new avenues and opportunities for growth.

We are excited about our pending acquisition of Healthcare Services Management, or HSM Consulting, which we announced this afternoon. The acquisition will complement our current Epic optimization service offering and provide us with deep expertise in Cerner, MEDITECH, Allscripts, and other prevalent EHR systems. The transition will also significantly expand our capabilities in IT strategic planning and advisory services.

We look forward to integrating our businesses and having the depth and breadth necessary to support healthcare clients irrespective of their EHR system. We believe this expanded offering will create new opportunities for our Revenue Cycle and Cost & Clinical solutions.

Finally, our Studer Group solution continued to perform in-line with our full-year expectations in the second quarter. Following the one-year anniversary of that acquisition, we continue to see solid renewals in this business and we are increasingly integrating our legacy Healthcare solutions with our Studer Group offerings to help clients address the human capital element of change.

Given the evolving market dynamics and significant changes we are making to our business to address these market conditions, we remain cautiously optimistic about the outlook of our overall Healthcare segment.

The ongoing dialogue around federal and state support for healthcare, along with continuing reverberations from the Affordable Care Act and the impact of the Medicare Access and CHIP Reauthorization Act, or MACRA, have resulted in healthcare providers anticipating and experiencing labor costs that have or will exceed reimbursement. This is resulting in renewed pressure on providers and an increased sense of urgency to contain costs and uncover new sources of revenue.

While our Healthcare practice has not recently achieved its historical growth rate, the challenges facing the provider market remain significant and we remain well-positioned to partner with hospitals and health systems as they look to address their most pressing and complex challenges.

Turning now towards our Education and Life Sciences segment, revenues grew 5% in the second quarter, year-over-year, primarily driven by another solid quarter for the Education practice, reflective of the ongoing changes in the higher education industry. On recent calls, we have discussed the strong demand across all service lines within the Education practice and this remained true for the second quarter.

While I will not repeat the commentary provided in past quarters regarding the strength of demand in the market, suffice to say that cost and quality pressures remain a primary concern for our higher education clients. We have seen strong demand from public research universities during the past year, reflecting the challenges that many of them are facing to grow their revenues while managing and reducing costs in a period of affordability and funding challenges. Likewise, the transition from on-premise to cloud solutions at many of our clients continues to evolve and we are pleased with the progress we have made and continue to make in our cloud-based initiatives.

Our Life Sciences practice grew sequentially in the second quarter despite being down year-over-year with tough comparisons. We continue to find ways to differentiate our business in the market and we are making investments in new solutions that build upon our expertise and capabilities. We expect the business will continue to build momentum throughout the remainder of the year.

Finally, our Business Advisory segment continued to perform well during the quarter, growing 12% organically in the second quarter of 2016 over the same period last year. The legacy Business Advisory practice turned in a solid quarter. With certain industries facing continued economic pressure, the market remains ripe for our restructuring and advisory services. We are encouraged by the success of the broker-dealer business and believe it will be a driver of growth for this practice.

Our Enterprise Performance Management & Analytics, or EPM&A practice, achieved another quarter of strong performance. Since we began this practice in 2013, we have expanded our service line outside of our core enterprise performance management offerings, and have developed relationships with new partners, enabling us to provide a broader array of financial, operational, and technology solutions to our clients.

We recently announced our expansion into commercial ERP to further align the business with Oracle's new go-to-market strategy and strengthen our ability to support our clients' diverse technology needs. As this practice evolves, we expect it to continue with solid growth trajectory. We are actively integrating our legacy business with our recent addition of ADI Strategies, which strengthens our position in the market, particularly in the financial services industry, while increasing our geographic presence.

Since our acquisition of Blue Stone International in October 2013, the EPM&A business has grown from approximately $20 million in revenue to what we believe will exceed a run rate of $100 million in revenues going into 2017.

Let me now turn our attention to our 2016 guidance. As our press release indicates, we are updating our annual revenue guidance to $755 million to $775 million and narrowing our GAAP earnings per share guidance to $2.20 to $2.35, and on a non-GAAP adjusted basis, our updated EPS guidance is $3.35 to $3.50.

We have narrowed our revenue guidance to the lower end of our original range, reflecting the lack of visibility in our Healthcare business, while also adjusting for our recent acquisition of the US business of ADI Strategies and our pending acquisition of HSM Consulting. With respect to Healthcare, we expect the business to be relatively flat organically in the second half of the year compared to the first half of 2016.

While we remain cautiously optimistic in our Healthcare segment, we take comfort that our ELS and Business Advisory segments are both positioned for what we expect to be continued solid organic growth during the remainder of the year. We also narrowed and raised our EPS guidance to the higher end of our previously stated range, reflecting the acquisitions of ADI Strategies and the pending acquisition of HSM Consulting. Finally, we are reaffirming our healthcare performance-based fee guidance of $55 million to $65 million.

I will conclude with a brief comment about our new Huron brand, which we will launch later in the third quarter. The new brand will reflect the evolution of our business and the dramatic change in our service offerings that has taken place since our founding 14 years ago and, more specifically, during the past 8 years. The most prominent of those changes is our increased focus on the healthcare, education, and life sciences industries and a growing portfolio of services for the commercial sector.

Our new brand highlights the extent of collaboration that exists across our segments and services. For example, in 2015, approximately 30% of our Business Advisory segment revenue was generated from clients in the healthcare, higher education, and life sciences industries. Our Education and Life Sciences teams frequently partner with our Healthcare business in academic medical centers to bring our comprehensive clinical, academic, and research offerings to our clients.

The Life Sciences, legacy Business Advisory, and EPM&A practices collaborate with our pharmaceutical and medical device clients to bring deep industry expertise with a strong advisory and technology competency. This collaboration is an important part of our corporate growth strategy and you will soon see that our enhanced brand reflects the collective value that we deliver to our clients. We are very excited about this new positioning for our business in the market and I believe that it will play a critical role communicating the comprehensive and unique value that Huron provides.

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

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

Thank you, Jim, and good afternoon, everyone.

Before I begin, please note that I will be discussing non-GAAP financial measures such as EBITDA, adjusted EBITDA, adjusted net income, adjusted EPS and free cash flow. Our press release, 10-Q and investor relations page on the Company website each 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.

Also, our acquisition of the US business of ADI Strategies, which closed in May, is included in our second quarter financial results in our Business Advisory segment. In addition, our pending acquisition of HSM Consulting, which we announced today, is not included in our second quarter financial results. Upon closing, HSM will be included within the Healthcare segment. We anticipate the transaction will close during the third quarter of 2016. We also expect the acquisition of the international business of ADI Strategies will close during the third quarter of 2016, at which time it will be included in our Business Advisory segment.

Now, me walk you through some of the key financial results for the quarter. Revenues from continuing operations for the second quarter of 2016 were $184.3 million, compared to $184.0 million in the same quarter of 2015. Revenues for the second quarter of 2016 reflect our acquisitions of Rittman Mead India, Cloud62, MyRounding, and the US business of ADI Strategies, all of which closed after the second quarter of 2015, and in the aggregate, generated $8.7 million of incremental revenues during the quarter.

Revenues were relatively flat over the prior year period due to a decline in Healthcare revenues, which were offset by increased revenues in our Education and Life Sciences and Business Advisory segments.

Net income from continuing operations was $16.1 million, or $0.76 per diluted share, in the second quarter of 2016 compared to $14.1 million, or $0.62 per diluted share, in the same quarter last year. The increase in net income over the prior year period is primarily due to a reduction in the income tax rate in the quarter.

Our effective income tax rate in the second quarter of 2016 was 33.8% compared to 41.4% a year ago. The decrease in effective tax rates between periods is primarily due to lower state taxes, a discrete tax benefit for deductible share-based compensation and tax credits.

Adjusted EBITDA from continuing operations was $41.4 million in Q2 2016, or 22.4% of revenues, compared to $41.5 million in Q2 of 2015, or 22.6% of revenues. Adjusted non-GAAP net income from continuing operations was $23.3 million, or $1.09 per diluted share, in the second quarter of 2016, compared to $21 million, or $0.93 per diluted share, in the same period of 2015.

Now, I will make a few comments about the performance of each of our operating segments. The Healthcare segment generated 58% of total Company revenues during the second quarter of 2016. This segment posted revenues of $106.1 million for the second quarter of 2016, down $12.4 million, or 10.5% from the second quarter of 2015.

As Jim discussed, the decline in revenue from the prior year quarter was primarily due to softness in our Revenue Cycle and Cost & Clinical businesses, reflecting in part comparisons in our Revenue Cycle business as compared to Q2 2015, in which the highest quarterly revenues were generated for this practice in 2015. Performance-based fees in Q2 2016 were $14.8 million, compared to $16.3 million in the same quarter last year.

Our full-year expectation for the range of performance-based fees remains unchanged at $55 million to $65 million. Operating income margin for Healthcare was 39.0% for Q2 2016 compared to 38.4% for the same quarter in 2015.

Operating margin in Q2 2016 reflects a reduction of bonus expense consistent with our updated outlook for full-year 2016. We continue to manage costs to maintain our expected profitability while improving and adjusting our go-to-market strategy and resources to address our clients' needs.

The Education and Life Sciences segment generated 24% of total Company revenues during the second quarter of 2016. This segment posted revenues of $45.1 million in Q2 2016, an increase of 5.1% compared to revenues for Q2 2015 up $42.9 million. As Jim noted, the increase in revenue during the quarter was driven by strong demand across all of our solutions within the Education practice.

The operating income margin for Education and Life Sciences was 29.0% for Q2 2016 compared to 30.7% for the same quarter in 2015. The decline in operating margin was primarily driven by reduced consultant utilization versus the prior year period, which reflects our continued investment in Cloud capabilities.

The Business Advisory segment generated 18% of total Company revenues in the second quarter. This segment posted revenues of $33.1 million for the second quarter of 2016, an increase of 49.0% compared to $22.2 million in Q2 2015. Revenues for the second quarter of 2016 included $8.3 million of incremental revenues from our acquisitions of Rittman Mead India, Cloud62, and the US business of ADI Strategies, while the legacy Business Advisory and EPM&A practices continued to perform well during the quarter.

The operating income margin for Business Advisory was 28.0% for Q2 2016 compared to 30.1% for the same quarter in 2015. The decline in margin reflects a shift in revenue mix from our legacy Business Advisory practice to our EPM&A practice. I would like to remind everyone that EPM&A practice typically has lower bill rates and margins than that of the legacy Business Advisory practice.

As the EPM&A practice continues to grow at a somewhat faster pace than the legacy Business Advisory practice, we expect the blended bill rates and margins may decline over time.

Other corporate expenses not allocated at the segment level were $27.9 million in Q2 2016 compared to $29.6 million in Q2 2015. The decrease in other corporate expenses reflects the adjustments made during the first half of 2016 to reduce our corporate infrastructure following the divestiture of Huron Legal, partially offset by deal costs related to the acquisitions of ADI and HSM.

Now, turning to the balance sheet and cash flows, DSO came in at 58 days for the second quarter of 2016, which is flat compared to the first quarter DSO.

Total debt includes both the $250 million face value of convertible notes and $115 million in senior bank debt, for total debt of $365 million. We finished the quarter with cash of $7 million for net debt of $358 million, a reduction of approximately $11 million inclusive of our Q2 2016 acquisition of the US business of ADI Strategies, compared to net debt of $369 million as of the March quarter. We ended Q2 2016 with a leverage ratio defined as total debt net of cash of approximately 2.3 times adjusted EBITDA.

Cash provided by operating activities for the quarter was $50.4 million. We now expect cash from operating activities for the year of $135 million less capital expenditures of roughly $20 million for free cash flow for the year of approximately $115 million.

Finally, as Jim mentioned, we are updating our annual guidance for revenue to $755 million to $775 million, which includes our acquisition of the US business of ADI Strategies and the pending acquisition of HSM Consulting. We are also narrowing our annual earnings guidance for GAAP EPS to $2.20 to $2.35 per share and non-GAAP adjusted EPS to $3.35 to $3.50 per share. We also expect our effective tax rate to be in the range of 38% to 39% for the full year 2016.

With that, I would now like to open up the call to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Tim McHugh, William Blair & Company.

Tim McHugh - *William Blair & Company - Analyst*

First, I guess just some numbers questions. Can you help us quantify the annual revenue that you will get from the international part of ADI and from HSM? I'm not sure if you gave it, but I didn't get it.

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

We didn't. And so, in total, between ADI Strategies on the US piece and the acquisition of HSM, which we expect to close pretty quickly here in Q3, we expect a combined total of roughly $35 million. And that breaks out about $10 million from HSM and roughly about $25 million from ADI Strategies.

Tim McHugh - *William Blair & Company - Analyst*

And that's the annual number or is for this year?

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

That's for the balance of this year.

Tim McHugh - *William Blair & Company - Analyst*

Okay. Okay.

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

That's what we expect to be included in the reported numbers for 2016.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And did you give -- I apologize if you mentioned this -- Studer as well. How did that perform in the quarter?

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

So Studer, what we said was it was in line with our expectations for the full year. And we continue to expect mid- to upper-single-digit growth. Sequentially, it was relatively flat, but that's the timing of some of the activities that we recognize on a current basis.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And the comment on, more just bringing it back to the market. Expecting flat healthcare in the second half, given it was down a fair amount sequentially on an organic basis, what is the risk for further weakness and how do you gauge that relative to the pipeline and everything you look at in terms of the revenue cycle piece? How do you know it's not going to continue to get worse from there?

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

Tim, this is Jim. We, it's possible that we are kind of looking at probably slightly negative organic growth at the midpoint for healthcare. So that's kind of what we are thinking may be the case. I think what happens is we are looking at the pipeline as it exists right now. And whether there are, our gains for the rest of the year, reflects kind of what we are seeing right now and how we are seeing some of those things materialize.

As Mark indicated, the Studer Group continues to do well. There has been this choppiness that we're still trying to manage through on the cost in clinical and revenue side piece. And I think part of it just reflects the portfolio of services we have right now.

When we look at the pipeline on a go-forward basis, we're trying to be cautious about predicting where things are going so that we don't end up having to worry about issues of timing and the size of projects and how quickly they're going to ramp up. So we are taking an approach that we think is reasonable given what we see right now.

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

So, Tim, just to reiterate, I think if you look -- when we think about the guidance range for the balance of the year and what's implied in the second half for organic healthcare, it's essentially a continuation of what the year-to-date trend was for the first half of the year. So kind of low negative single-digit percentage.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And just to ask the question because one of your competitors reported and it had good kind of results in the healthcare segment. So, talk about competitively, how do you feel about the business and if this shift towards a strategy, kind of more IT and a strategy approach that you're pursuing here, is it one that just others are out ahead of you or do you feel just as comfortable with how you're competing for engagements that come up versus the number of opportunities that you have?

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

So Tim, this is Jim. I guess I will make a couple of comments. First of all, I don't know. We certainly made, our recent acquisitions in healthcare have certainly been towards the technology end. I think it's less about a technology strategy and more about our continued efforts to use technology to help our clients better run their business, and so, we still believe that there's going to be a very strong need for our traditional services, both on the cost in clinical side and the revenue cycle side.

There's a question that the need to continue to use technology to enhance and bring those, the value of those businesses to light for our clients is going to be important and that's why we've made those investments. So, I just wanted to characterize it. I don't know that we are totally getting to be totally IT-based. It is just, it's an integral part of the way we are delivering service to our clients.

Getting back to your competitive question, a couple comments there. Number one is, as we've indicated recently, I think there certainly is, so we've seen the average size of our projects decline. We certainly have been in a position where that is going to open up a little bit more opportunity for competitors to come in and we witness that. We have always had good competition and if we have smaller projects, we're going to continue to get good competition. So we have expected that.

I think there's a part that we've always been a little bit out of sync with our competitors in terms of whether we are up and they are down, or vice versa. I think that's reflective of the fact that, there are a couple of reasons. Number one, I think we tend to offer different services.

We tend to have different size projects and I think we actually serve different markets, not exclusively, but largely, and the combination has always made us a little bit out of sync with the way our other, at least certainly publicly traded and some non-publicly traded, competitors have been viewed.

So, I think we're comfortable with the direction that we're taking right now; we're comfortable with the changes that we're making in our practice to be more reflective of the needs that our clients are having. And I think probably the most important part is, as we've indicated, as the size of the projects goes down, we are spreading out our wings more, we are, in the second quarter, certainly serving more clients than we have before.

And I strongly believe that I think that having more and more of those more clients underway at any given point in time enhances our chances of having new opportunities to do work with those clients. So it's a business, it's a part of the business that I've had before.

We certainly have enjoyed the fact that we have had some larger fully integrated projects in the past. We expect they will be out there still in the future, but in the interim, having a more diversified base is something that we are prepared for and we're actually confident that we will be able to continue to serve quite well and return to growth here shortly.

Tim McHugh - *William Blair & Company - Analyst*

Okay. Thank you.

Operator

Tobey Sommer, SunTrust.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Thanks. For my first question, I would like to ask, and terms of FTEs within healthcare, do you think those will be roughly stable in the back half of the year? Would that be an expectation for the revenue outlook that you've laid out?

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

Yes, Tobey, I think at this point, as we have talked about before, I think our inclination is to be cautious on hiring and staffing just because of the lower level of visibility that we have within the practice, and so, I would expect it to be probably at best, flat, maybe a little bit down from where we are right now.

But again, it's one of those things that we manage kind of on a more current basis. So it's roughly managed according to utilization and then we make the headcount where we need it to be in order to protect the margins and profitability.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

And Jim, you had mentioned in your prepared remarks seeing the costs associated with delivering services among your healthcare customers as being higher than the revenue reimbursement. Is that something that you would expect to become more visible in the public hospital company results as we work our way through the year?

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

So my comment was mostly about the non-public, the non-for-profits. We don't serve that many for-profit companies, if that's what your question's about, Tobey, within our performance improvement segment. So I don't -- I suspect it's hitting them much the same way.

They are managed differently than a lot of our non-for-profit clients. I do know, I think it's becoming increasingly prominent in our non-for-profit clients, that they are seeing cost pressures on the labor side that are exceeding the reimbursement or certainly the reimbursement trends, and that, we know, has become an increased focus of a lot of our clients, particularly in the non-for-profit sector.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Okay.

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

Does that answer you question?

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Sure. Yes. Thank you. And Mark, I hate to ask you to repeat it, but mentioned what the contribution was to guidance of the acquisitions but I wasn't able to jot it down.

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

Yes, no problem, Tobey. It is $35 million in total. The assumption is $10 million from HSM through the balance of the year. We expect to close pretty quickly on the transaction. And $25 million from ADI Strategies, which is from the date that we acquired them back effective May 1.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Okay, thank you. And then, just a short question on the business advisory. Are you moving I don't know if upscale, but getting some of these larger projects in the bankruptcy field there?

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

Yes. I think we are. We've always kind of tended to serve the middle market. I think, over the years, as we've established our reputation, I think it's eased the extent to which we can be considered for larger bankruptcies and troubled companies and so I do think that over time, it's possible that we'll be increasing that. I think we're still primarily consider ourselves to be mostly middle market, but we've certainly attained the ability to service larger, more complex clients, Tobey.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Thank you. I will get back in the queue.

Operator

Randy Reece, Avondale Partners.

Randy Reece - *Avondale Partners - Analyst*

Good afternoon. I wanted to talk again about the labor consulting business. That does seem to be an area of increasing concern. Have you seen it actually materialize into, in your pipeline yet?

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

Randy, this is Jim. We have. There's clients where we're working now; there's other clients that are talking with us about it. So, we know that is a sizable issue. I think the part that concerns our clients the most is the trends and that is the trends seem to really be towards much tighter labor among physicians and clinicians and nurses and the reimbursement doesn't really match those trends. I think that's the fundamental reason that they are concerned right now.

Randy Reece - *Avondale Partners - Analyst*

Okay. And then, when I look at your consulting headcount in healthcare, you had a pretty considerable decline in this quarter. Could you just go over your philosophy about managing headcount versus activity levels in healthcare? How readily you respond to changes and whether the cuts were concentrated in any particular sub-segment of Huron healthcare.

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

Yes, Randy, this is Mark. Really, I would say our philosophy in general on managing headcount is the same across the business, which is really, in the context of trying to achieve financial projections, taking care of the clients that you have and that you expect to have with the right mix of talent within the organization.

And so, I mean if you go back over the years, I think literally every single one of our practices goes through this from time to time. So it's something that is just part of being in a consulting business. Within our particular business, I would say no, they were not concentrated in any particular area.

Randy Reece - *Avondale Partners - Analyst*

Okay, very good. Thank you.

Operator

(Operator Instructions)

Kevin Steinke, Barrington Research.

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

Good afternoon. You mentioned a little bit of a slowdown in the revenue cycle within healthcare. I believe you said for reasons similar to cost and clinical, but I don't know if there's any more color you can add to that or any more commentary just on the slowdown in revenue cycle.

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

Kevin, this is Jim. I don't think there's much more. I mean this was really the first time that we've had a slightly more recognizable slowdown and we're reluctant to be too presumptive about trends one way or another with really one quarter that seems to be different than the way it's been before.

So, it was a little bit clearer when we've talked over the last three, four quarters about some of the changes that we had in what we used to call performance improvement and is now cost and clinical where that's been a little bit more pronounced and we understand the trend and we've been kind of accommodating that and talking about it. I think here, we just were, it was really the first time that I think it was as noticeable as it was.

We don't think that this is necessarily indicative of any trend going on, but it was certainly a component of the drop off in revenue for this current quarter. I don't know that there is enough. We try to read the tea leaves just like everybody else does about the opportunities from revenue cycle. There certainly are, there seem to be plenty of demand in the marketplace. So, we are just kind of calling it as we see it right now and being cautious about the remainder of the year until we get a little bit more clear in terms of where things are going.

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

Okay. Okay. Fair enough. And, I believe you were making some investments this year in both healthcare and education and life sciences. So, how are those tracking relative to your expectations in terms of cost and also maybe any initial results from those investments?

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

Kevin, thanks for that question. Let me start on the healthcare side. So we have invested in a strategy solution and I think we're starting to see the kinds of results that we were hoping to see. Again, I think the investment has been in line with what our expectations are. So I think it hasn't been a part of the storyline here in terms of any of our financial results.

And really, I would say, and I'll have Jim elaborate here, but I think on the cloud, we've been very pleased with results that we've seen. I would say that if you look collectively at where we are on a year-to-date basis, we're spending marginally a little bit less than we expected. We had talked about in guidance at he beginning of the year roughly 250 basis points.

I think we're probably closer to roughly 200 basis points, but our intention is to continue to invest aggressively because we see lots of good top-line opportunities with all of our cloud vendor partners. Jim, anything you would want to add to that?

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

Yes, I'd add just a couple points on both of them. Just in terms of going back to healthcare for a second, on the strategy component of it, we have made investments there. And in part, we do know that our clients are kind of looking for the strategy work to increasing be aligned with capabilities around cost and revenue.

And so that's another part that we're, the reason we're expanding our strategy thing is it's a great stand-alone part of our business, but it also is increasingly requested by our clients to be attached to either cost and/or revenue solutions as well and so we feel real good about the way that product is being collaborative as we go to market.

And I think, as Mark indicated, that on the higher education side and the cloud investment in particular, it really is going better than we thought, both on the revenue side and the cost side, which is nice.

But I think probably more importantly, I think we are really getting, because of our competencies and knowledge in the higher education space, we are really seeing a lot of opportunities that are opening up that we think we are going to be very competitive in simply because of our deep knowledge, not only increasing knowledge of the cloud-based solutions, but also our deep and long knowledge of the environment in the higher education space.

So you put those together where a lot of clients want to use the opportunity to move to the cloud to change the way they do business and we are really well prepared to do that. So we have high hopes and expectations for this part of the practice as it continues to grow.

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

Okay. That's good to hear. In terms of the targeted savings from reduction and some overhead costs related to the legal business, are you still on track with what you were planning for this year?

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

Yes, Kevin, our expectations haven't really changed from the beginning of the year and we saw our -- as some of those services started to roll off at the end of the first quarter and into the second quarter, we've certainly seen savings. And at the same time, we've had some investments that are really, again, built into our expectations.

Things like we've talked about in the brand as well as some of the deal related costs from both of the ADI and the HSM transactions that have been happening. So collectively, I think we're comfortable from where we are from a cost perspective with respect to those expectations.

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

All right. Good. One last question. Just in terms of the 2016 EBITDA guidance, as I calculated, or actually adjusted EBITDA guidance, as I calculated, implies an adjusted EBITDA margin 20 basis points lower at the midpoint than your prior annual revenue and adjusted EBITDA guidance. So it's a pretty small change, but I don't know if there's anything in particular behind what's baked in in terms of the adjusted EBITDA margin.

Mark Hussey - *Huron Consulting Group Inc. - COO & CFO*

Again, I'm glad you brought that up because it really is primarily reflective of the two acquisitions that we've done, which are more implementation businesses with lower EBITDA margins and so when you blend of those down, on that revenue, including it's really more of a mix issue. So if you strip those out, we would be essentially in line with what our original guidance range was.

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

Okay, perfect. That makes sense. Thanks for taking my questions.

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

Thanks, Kevin.

Operator

Mr. Roth, I am not showing any further questions. I would like to turn the conference back over to you.

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

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

Operator

Ladies and gentlemen, that concludes today's conference call. Thank you, everyone, for your participation.