CBIZ, Inc(Q1 2022 Earnings)

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Corporate Speakers:

- Lori Novickis; CBIZ, Inc.; Director of Corporate Relations
- Jerome Grisko; CBIZ, Inc.; President, CEO & Director
- Ware Grove; CBIZ, Inc.; Senior VP & CFO

Participants:

- Christopher Moore; CJS Securities, Inc.; Senior Research Analyst
- Andrew Nicholas; William Blair & Company LLC; Research Division, Analyst

PRESENTATION

Operator: Good morning, and welcome to the CBIZ First Quarter Conference Call. Please note that this event is being recorded. I'd now like to turn the conference over to Ms. Lori Novickis, Director of Corporate Relations. Please go ahead.

Lori Novickis: Good morning, everyone, and thank you for joining us for the CBIZ First Quarter 2022 Results Conference Call. In connection with this call, today's press release and quarterly presentation have been posted to the Investor Relations page of our website, cbiz.com. As a reminder, this call is being webcast, and a link to the live webcast can be found on our site. An archived replay and transcript will also be made available.

Before we begin, we would like to remind you that during the call, management may discuss certain non-GAAP financial measures. Reconciliations of these measures can be found in the financial tables of today's press release and in the Investor Relations presentation on our website.

Today's call may also include forward-looking statements, including statements regarding our business, financial condition, results of operations, cash flows, strategies and prospects. Forward-looking statements represent only estimates on the date of this call and are not intended to give any assurance as to actual future results.

Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Many factors could cause future results to differ materially, and CBIZ assumes no obligation to update these statements. A more detailed description of such factors can be found in our filings with the Securities and Exchange Commission.

Today, joining us for today's call are Jerry Grisko, President and Chief Executive Officer, and Ware Grove, Chief Financial Officer. I will now turn the call over to Jerry for his opening remarks. Jerry?

Jerome Grisko: Thank you, Lori. Good morning, everyone. We are pleased to share our first quarter performance for 2022 and to discuss our outlook for the remainder of the year. But before we discuss our results this morning, I want to take this opportunity to recognize and honor the life and legacy of Steven L. Gerard, our long-time Chairman and former CEO. Steve passed away on April 12 after a brief illness.

We were able to gather with Steve's family and friends last week to celebrate a life that impacted so many people and to honor all that Steve did to contribute to the success of CBIZ. I know that many of the people on this call knew Steve and understand the impact of his leadership on CBIZ during his tenure, both as CEO and Chairman.

Steve joined CBIZ in 2000 when the company was at a critical juncture and experiencing rapid growth through acquisition. Steve's vision for what our company could become and pragmatic approach to putting the processes and policies in place to enable us to scale were critical to establishing the foundation for the company that we are today. During his tenure as CEO, CBIZ grew revenue by 37%, and the value of CBIZ stock increased nearly 10-fold.

He was not only a vocal and enthusiastic champion for our people, but held a deep commitment to the importance and power of a culture based on shared values. Many of the innovative, professional development programs and initiatives that Steve established continue to this day. Steve will be remembered as a tremendous leader, mentor and friend who was quick to give credit for our success to others on our team and who inspired those around him to reach for even greater heights. He will be greatly missed by all of us.

So it feels only fitting as we reflect on Steve's legacy that I share with you our exceptionally strong performance for the first quarter of this year. As we discussed during our last call, 2021 was a historic year for CBIZ. As we celebrated our 25th anniversary as a company, we also achieved a high watermark for our performance with sizable increases in total revenue, organic revenue growth, adjusted EPS and adjusted EBITDA. Our full year growth in 2021 came from nearly every major service line across the business.

Our goal for 2022 was to start the year very strong and to build on this momentum, and I'm proud to report that we're doing just that. For the first quarter, our total revenue growth was up over 30% and reflects growth across all major service lines. In addition to strong demand for many of our advisory services, we're also seeing more traction in pricing, which is the result of the investments that we've been making in processes, systems and tools that support our teams with the pricing and profitability of client engagements.

Within our Financial Services group, we just completed our traditional busy season and are pleased to report continued strong demand for our central accounting and tax services and for our more project-based advisory services. While we often have only a limited view into the future demand for many of our advisory services, as of today, we're seeing no signs of this demand slowing down as businesses are moving quickly to capitalize on the opportunities provided by the current business climate.

On our last call, I highlighted the somewhat slower growth within our government healthcare consulting business that we experienced in 2020 and 2021 when compared to prior years. This is one of the areas where we experienced COVID-related impacts as some states were slower to completely reopen and, in some cases, delayed projects.

For the first quarter, we began to see some catch-up with some of these delayed projects kicked off, and we also benefited from the launch of a number of new projects. While we cannot predict the extent to which this momentum will continue, overall, we're seeing increased demand for our services as our government clients resume more normal operations.

Now turning to our Benefits and Insurance division. We kicked off this year with historic rates of organic revenue growth, driven by our Employee Benefits and our Property & Casualty Insurance service lines. Within our Employee Benefits business, we continue to have strong sales, high client retention and positive trends. As anticipated, our growth also reflects the impact of the addition of approximately 15% more producers compared to last year.

The organic growth posted by our Property & Casualty Insurance business for the first quarter is on record pace. Similar to our Employee Benefits Services business, the growth is coming from strong sales and continued high retention rates.

Within our retirement investment services and our payroll service lines, we are seeing growth in the low-single digits. Specific to payroll, we are pleased to see continued strong demand for our more upmarket payroll platform that serves clients with more complex payroll needs, and we also had some significant wins with larger clients during the first quarter.

Finally, while they make up only a small segment of our Benefits and Insurance division, we also experienced strong demand for our advisory and project-based businesses, such as our executive search and our compensation consulting business.

Overall, we are very pleased with the outstanding performance of the business through the first quarter and our ability to capitalize on the momentum coming off of a strong 2021. Based on this performance, we are pleased to reaffirm our guidance for the full year at the high end of the ranges that we provided on our call in February.

One final note. Similar to last year, I want to caution that we do expect more volatility in our financial results from quarter to quarter than we've historically experienced, due in part to the significant number of acquisitions completed in the past 12 months. As a result, I would advise against comparing any given quarter this year to the same period in the prior year. With this, I'll turn it over to Ware Grove, our Chief Financial Officer, to provide more specific details on our financial performance for the first quarter. Ware?

Ware Grove: Thank you, Jerry, and good morning, everyone. Let me take a few minutes to highlight the first quarter numbers for you.

The strong momentum reflected in prior year results has continued into 2022. The acquisitions we made in 2021, plus the Marks Paneth acquisition that closed in January this year, are contributing a major component to year-over-year growth in the first quarter.

Total revenue increased by $91.0 million or 30.3% above first quarter a year ago. Acquisitions contributed $62.2 million to this growth, and significantly, same-unit growth in the first quarter increased by 9.6% over first quarter a year ago.

Within Financial Services, total revenue growth increased 41.4% compared with a year ago, with same-unit revenue up by 10.6%. We experienced solid growth across all areas of financial services, including government healthcare consulting, with particularly strong growth within our advisory service business that focuses on private equity clients.

Within Benefits and Insurance, total revenue was up 6% with same-unit revenue up by 6.9%. As a reminder, in the second quarter a year ago, we reported a divestiture of the Benefits and Insurance operation.

So that transaction accounts for the difference between total and the same-unit revenue growth this year. Same-unit revenue grew across all lines of service within Benefits and Insurance and provides evidence of the effectiveness of the long-term investments in new producers that we have been making in recent years within Benefits and Insurance.

As we go through 2022, the impact of transaction and integration expenses related to the January acquisition of Marks Paneth will represent an adjustment to GAAP reported earnings. During our investor call in January, we outlined an expectation that, due to initial first year costs, the expected contribution to GAAP reported earnings from Marks Paneth in 2022 would be negligible. In the first quarter, there are approximately $1.3 million of one-time transaction-related fees that are reported within our G&A expense category.

In addition, there are approximately $4.7 million of other non-recurring integration expenses that are primarily reflected within operating expenses. In the first quarter, these costs impacted margin by 153 basis points and impacted reported earnings per share by $0.08. This adjustment and a reconciliation to GAAP numbers is outlined in the earnings release, reporting adjusted earnings per share of $1.18 per share.

We are very happy to have the Marks Paneth team join CBIZ. Initial results are in line with expectations, and integration efforts are on track. Integration efforts will be ongoing throughout 2022, and we will continue to provide visibility to these costs as we progress through the year.

Beyond these non-recurring acquisition integration costs, in a similar fashion that we outlined during the second half of 2021, remember that the continued normalization of pandemic and fluid costs, such as travel and entertainment, marketing, and benefits and healthcare costs continue to impact margins. Benefits and healthcare costs and marketing costs are both expected to normalize at levels close to pre-pandemic levels throughout the year.

As we continue to utilize virtual tools in our business, we expect travel and entertainment-related costs will normalize at 50% to 60% of pre-pandemic levels or approximately 100 basis points lower than pre-pandemic levels. Combined, these expense factors I outlined represent a margin headwind of approximately 79 basis points of higher costs in the first quarter this year compared with first quarter a year ago.

Many of you on this call are likely familiar with the anomalies associated with accounting for gains and losses on assets held in our deferred compensation plan. At quarter end, assets held in this plan were $132 million.

As a reminder, there is no impact to the reported margin on pre-tax income, but because there was a loss in the first quarter of 2022, compared with a gain a year ago, there is a pronounced impact on reported operating income and G&A expense. You can find a table in the earnings release with details for you so that you can normalize for this factor.

On a GAAP basis, we reported pre-tax income of $77.5 million, or 19.8% of revenue, an increase of $11.3 million, or 16.9% over $66.2 million reported a year ago. Reported earnings per share this year was $1.10, a 19.6% increase over $0.92 reported a year ago. Adjusting to eliminate the impact of the non-recurring costs related to Marks Paneth, adjusted earnings per share was $1.18 or a 28.3% increase over prior year.

Turning to cash flow items. During the first quarter, we spent $80 million for strategic acquisition purposes, including earnout payments on acquisitions completed in prior years. Looking ahead and estimating future earnout payments, for the balance of 2022, we estimate payments of approximately $29.5 million. In 2023, we estimate approximately $42.8 million. In 2024, approximately $45.1 million. And in 2025, approximately $23.1 million.

During the first quarter, we repurchased 148,000 shares and utilized approximately $6 million. Since March 31, we have continued to repurchase shares under a 10b program and have repurchased an additional 170,000 shares, utilizing $7.2 million, for a total of approximately 320,000 shares repurchased to date through yesterday.

Beyond the non-operating uses of cash for strategic acquisitions and for shares repurchased, the first quarter typically results in a seasonal use of cash for CBIZ due to the seasonally high level of client work and the associated receivables that increase.

At quarter end, the balance outstanding on our $400 million unsecured line of credit was $298.9 million compared with $155 million at year-end, leaving approximately $94.8

million of unused capacity. Day sales outstanding on receivables at the end of the first quarter was 94 days compared with 91 days a year ago. Capital spending in the first quarter was approximately $800,000.

Depreciation and amortization expense in the first quarter was $8.2 million compared with $6.3 million a year ago. This reflects an increase in amortization expense that is associated with acquisition activity. For the full year, we project depreciation and amortization expense at approximately $33 million compared with $27 million for full year 2021.

Adjusted EBITDA generated in the first quarter was $92.9 million, an increase of 26.7% over $73.3 million in the first quarter a year ago.

The effective tax rate in the first quarter this year was approximately 25% compared with approximately 24.1% a year ago. For the full year this year, we continue to project an effective tax rate of approximately 25%. But this could be impacted by a number of unpredictable factors causing the effective rate to be either higher or lower than projected.

The strong cash flow attributes of our business continue to reflect in our results. With $298.9 million outstanding on our credit facility, we are leveraged at approximately 1.7x EBITDA at the end of the first quarter.

Looking ahead, our pipeline of potential acquisitions remains robust, and we intend to continue to repurchase shares. To support this, on April 12, we launched efforts to amend our current $400 million credit facility with the goal to extend the maturity by 5 years and to increase total availability to $600 million. We expect to close an upsized credit facility in early May, and today, I can share that we currently have commitments from our bank group, subject to final documentation, that are well in excess of the $600 million target we are seeking.

Looking ahead for the balance of 2022, consider that the first quarter increase in total revenue compared with prior year was greatly enhanced by the impact of the mid-year acquisitions made in 2021, plus the impact of Marks Paneth that was acquired in January of 2022, with all acquisitions contributing 20.7% to revenue growth in the first quarter.

We are very pleased with the strong 9.6% first quarter same-unit revenue growth. With the balance of the year is expected to reflect continued strong results, but at this early stage, it is not yet clear that the 9.6% seasonally strong first quarter growth can be sustained at that same rate throughout the full year.

So with these factors in mind, I can reiterate our full year expectations for 2022 as follows: we expect revenue growth to be at the higher end of the range of 19% to 21% growth expected in total revenue over the $1,104.9 billion total revenue reported in 2021. The full year effective tax rate is expected at approximately 25%.

Again, this can be impacted up or down by a number of unpredictable factors. The fully diluted weighted average share count is projected at approximately 53 million shares. Compared with the adjusted earnings per share reported in 2021 of $1.66, we expect GAAP reported earnings per share to grow 14% to 16%, or within a range of $1.89 to $1.92 per share in 2022.

Adjusted to eliminate first year transaction and non-recurring integration expenses at Marks Paneth, we expect adjusted earnings per share in 2022 to grow within a range of 20% to 22%, for $1.99 to $2.03, compared with the adjusted $1.66 earnings per share reported for 2021. Again, with a strong start to the year, we are expecting full year performance in 2022 at the higher end of these full year ranges, and with those comments, I will conclude, and I will turn it back over to Jerry.

Jerome Grisko: Thank you, Ware. Before we move to Q&A, I want to touch on what we're doing to respond to the competitive labor market and the impact it's having on our business. I also want to provide a brief update on our progress with our latest acquisition, which we completed at the beginning of the year.

Like the rest of the professional services industry, we were dealing with a competitive labor market and increasing wage pressure. During the early onset of the pandemic, we made a commitment to protect our team and took proactive actions to minimize the direct impact on our employees.

We kept this commitment. And because of our early actions, we started 2022 in a better place relative to headcount than many of our competitors who furloughed or laid off workers at the onset of the pandemic and then had to scramble to replenish their workforce.

Our ability to retain and attract top talent is critical to our ongoing success. We recognize that to be competitive in this market, we need a comprehensive strategy focused on both retention and recruitment to ensure that we can maintain and expand our workforce. We have specific programs in place to source talent from interns and early career level personnel, all the way through experienced hires.

We've heavily invested in our national recruiting team and integrated digital tools to enable more proactive outreach to candidates who are using digital platforms, like LinkedIn, now more than ever to determine their next career move.

We've expanded our national internship programs to reach students still in school and create a connection that will translate to full-time positions after graduation. We've also continued to activate the best advocates for CBIZ, our own team members, to assist in identifying and securing new talent like experienced hires.

Now I'd like to turn to M&A as it continues to be a top priority and a key component of our overall growth strategy. In January, we announced our most recent acquisition, Marks Paneth. Similar to the transactions we completed in 2021, Marks Paneth aligns with our strategic goals around expanding our presence in attractive markets, strengthening our service offerings and adding valuable talent. As with any acquisition within the Financial Services business, timing matters.

By bringing on Marks Paneth at the beginning of the year, we understood from the onset that much of our integration activity would not begin until after completion of the busy season. While we've made great progress to date, our integration efforts are now accelerating as we bring Marks Paneth team on to our standard platforms and systems and provide additional resources and support to grow the business.

We are pleased with the performance of this group to date and look forward to the value that we will be able to deliver to our collective team and clients as we more fully integrate Marks Paneth into our operations. This acquisition was a great way to start the year and speaks to our prospects for the future. Our M&A pipeline remains very strong, and we have the financial capacity to remain aggressive in pursuing acquisitions.
With that, we will move to Q&A.

QUESTIONS AND ANSWERS

Operator: First question comes Chris Moore, CJS Securities.

Christopher Moore: So, same-store growth is very strong, 9.6%. As Ware said, it could be a little challenging to sustain that. When you look at the relative breakdown, 10.6% Financial Services, 6.9%, which one of those would you -- just trying to get a kind of relative sense between the two, which of those growth rates would perhaps be a little bit harder to maintain.

Jerome Grisko: Chris, it's Jerry. So look, we're really pleased with what we've seen in the first quarter, and we're confident with what we're seeing for the rest of the year. Those are just extraordinary growth rates right out of the block. So I wouldn't say one over the other. They're a little bit different. Within the Benefits and Insurance, within the 6.9%, there's some portion of that that was contingent revenue that we received in the first quarter that won't continue through the rest of the year, but we're predicting a continued strong growth rate within that group for the rest of the year.

Within Financial Services, of course, we just came out of our traditional busy season. Our more compliance-oriented services were full out and experienced really strong growth. But we also received strong growth within what we traditionally call our advisory practices, which includes private equity as well as more consulting advisory work that's embedded in our traditional offices as well. That came in very, very strong; stronger than we typically see in the first quarter. Now that is, of course, more discretionary on our clients, and our ability to predict the rest of that through the rest of the year is a little more challenging. But really pleased with what we've seen today, and I would say, to answer your question specifically, very optimistic for what we see into the future.

Christopher Moore: Got it. Very helpful. In your prepared comments, you talked about kind of the traction in pricing. Can you just remind me, typically, that's done one time early in the year, or is that kind of throughout the year?

Jerome Grisko: Both. It is, as you know, at the end of the year as we head into a new year, oftentimes we will be sending out pricing for the work that's going to happen in the early stages, the more compliance-oriented services. So yes, it's very heavily weighted really at the end of the year. We have that pricing in place going into our busy season. But then we will continue to price throughout the year, of course. There's still a significant amount of revenue that's yet to be generated through the year. And we'll have those disciplines built into our pricing models through the rest of the year as well.

Christopher Moore: Got it. Last one for me. Clearly, interest rates are going to continue to rise. The Fed's just really getting going. Does a meaningful increase in rates have much of a potential impact on any of your client base or any of your business areas?

Jerome Grisko: Yes, I'll turn it to Ware as well on this one. But as we survey our clients, that's certainly one of the issues that come up is the concern about interest rates, cost of financing and maybe the impact of inflation on there. But as it relates to CBIZ, we more -- we've been able to really adjust our pricing for any inflationary pressure that may come. So as it relates to our clients, it really may impact their outlook for the rest of the year and their overall confidence levels. We've not yet seen that, but I think the jury's still out on that one. Ware?

Ware Grove: My observation is hiring and economic activity is still pretty robust. But we're kind of in a balancing act right now where rising interest rates in an attempt to moderate inflation may slow down economic activity just a little bit. We don't know yet, but we're not seeing signs of any slowness yet at this stage.

With respect to our own balance sheet and our own exposure to rising interest rates, we've got 1/2 of the balance, 1/3 of the balance or so locked in through synthetic fixed rates through hedges. And then we have on the balance sheet an investment portfolio where we invest our client cash in short term, intermediate term treasuries and the like. So to the extent that those rising interest rates also reflect on the income side, they offset anything on the expense side.

Christopher Moore: Got it. I'll leave it there. Very helpful.

Operator: Next question comes from Andrew Nicholas of William Blair.

Andrew Nicholas: First one, following up on the prior question and some of the comments that you've made, Jerry, but I wanted to ask about price. Obviously, with inflation and broader wage pressures, there's some kind of near-term incentives to be aggressive there. Is there any way to kind of help us qualitatively -- or quantitatively, if you want to give it a shot -- but qualitatively understand how much of the strong price realization in the quarter is tied to your internal efforts on that front versus maybe being a bit more opportunistic based on what you're seeing in the market?

Jerome Grisko: I think they work together, Andrew. So obviously, I think all clients are more receptive to price increases in this environment, because whether it's CBIZ or our competitors, we're all kind of approaching it the same way. So I think the market is somewhat in tune with it and somewhat expecting it. On top of that, I think we're able to capitalize and optimize our pricing as a result of the investments that we've made and we've talked about on many calls in the past. We call it our practice management office. But we're giving our offices reporting, we're giving them tools, we're giving them training to allow them to better see the profitability and the pricing by client, by client service, by client engagement. And certainly those investments that we've now been making I think over the past 4 or 5 years in building that team couldn't be more timely in this environment.

Andrew Nicholas: Is there a way to quantify even kind of in a ballpark figure for the type of benefit in the quarter from price on growth?

Jerome Grisko: I'd say, again, we're talking core accounting, Ware and I talked about this before the call, probably 2/3, 1/3, right? 2/3 pricing, 1/3 volume.

Andrew Nicholas: Great. Great. And then if I could ask a follow-up. You talked about the strength in M&A-related services and private equity advisory services. Curious as to what you're seeing on that front thus far in the second quarter. I think you said continued momentum. Then also, kind of within your guidance, what are you assuming for those types of services? Are you expecting a slowdown? How much upside could there potentially be from a continuation of those year-to-date trends?

Jerome Grisko: Yes. We don't break it down. We give overall guidance on the total business. So as to the latter question, what I would say is we had an extraordinary year within that portion of our business last year. And we, in our guidance that we set for the year, we have growth on top of that, right?

So we're predicting that the market will remain very strong, and in the guidance that we have, there's always a cautionary note around. We will find that growth somewhere. We're predicting that we will continue to have strong performance within our advisory group. But if by chance it didn't come there, it would come somewhere else. We're confident in our guidance. But that certainly is one of the factors that we, as we look forward, we have less visibility.

As to the first part of the question, which is really how we did in the first quarter, continued strong performance. We get about for much of that work about a 60-, 90-day look at best as to what the outlook is or what the pipeline may look like. But as of the end of the quarter and today, we continue to have very strong demand for those services.

Andrew Nicholas: Great. If I could squeeze one more in. Just on the Marks Paneth transaction, I know it's really early and you spoke to some of the takeaways. I know a lot of professionals are tied up with busy season. But do you have any sense at this point for attrition in terms of talent or expected attrition? I know one of the things you were particularly excited about was bringing on a lot of new professionals that you felt strongly about in terms of their own capabilities. Just wondering if retention or your early signs for retention for those professionals are positive?

Jerome Grisko: Yes. Too early to tell, Andrew. I mean we just came out of busy season. We don't typically anywhere, the industry and CBIZ, we don't really see turnover or much turnover during the busy season. So I would say it is really too early. But what I will say is that our experience with acquisitions in general historically is that we do not experience a lot of turnover just because they became part of CBIZ. With that said, we are not leaving it to chance. We are talking -- actually, as we develop our onboarding and integration plan for Marks Paneth, we have specific actions in place and in the plan to get in front of their workforce and talk to them about the advantage of being part of an organization like CBIZ. We call it stronger together, but really the benefit -- how much stronger we can be, Marks Paneth is an outstanding organization with a great culture and great people. We believe the same thing about CBIZ. But I believe we'll even be stronger together. So that's really the theme that we will have as we get out into the offices and really get face-to-face with our new team members there.

Operator: This concludes the question-and-answer session. I'd like to turn the call back over to Mr. Jerry Grisko for closing remarks. Please go ahead.

Jerome Grisko: Yes. Thank you. As we wrap up today, I want to thank our shareholders and analysts for your continued support. And I also want to take this opportunity to recognize our incredible team. Our performance over the last year and through the first quarter is the direct result of our team's dedication to our clients, their approach to our work and their support for each other.

Busy season is always a grueling time within our industry, and even for our team members who are not within Financial Services, it's been a very busy start to the year. I remain grateful for our team for how you live our core values and how they reflect our brand. For all of our team members listening today, I thank you. With that, we'll conclude our call. Thank you, and enjoy your day.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.