CBIZ, Inc.(Q3 2024 Earnings)
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Corporate Speakers

- Lori Novickis; CBIZ, Inc.; Director of Corporate Relations
- Jerry Grisko; CBIZ, Inc.; President and Chief Executive Officer
- Ware Grove; CBIZ, Inc.; Chief Financial Officer

Participants

- Andrew Nicholas; William Blair; Analyst
- Christopher Moore; CJS Securities; Analyst
- Marc Riddick; Sidoti; Analyst

PRESENTATION

Operator: Good morning, everyone. Welcome to the CBIZ Third Quarter and Nine Months 2024 Results Conference Call.

(Operator Instructions) Please also note, today's event is being recorded.

At this time, I'd like to turn the floor over to Lori Novickis, Director of Corporate Relations. Ma'am, please go ahead.

Lori Novickis: Good morning, everyone, and thank you for joining us on today's conference call to discuss CBIZ's Third Quarter and Nine Months 2024 Results.

As a reminder, this call is being webcast and a link to the live webcast can be found on the Investor Relations page of our website, ww.cbiz.com. A replay and transcript will also be made available on our website after the call.

Today's press release and investor presentation have also been posted to the Investor Relations page of our website.

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 investor presentation.

Today's call may also include forward-looking statements regarding our business, financial condition, results of operations, cash flows, strategies and prospects. Forward-looking statements represent our expectations, estimates and projections as of this date of this call and are not intended to give any assurance of 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, except as required by law.

A more detailed description of such factors can be found in today's press release and in our filings with the Securities and Exchange Commission.

Joining us for today's call are Jerry Grisko, President and Chief Executive Officer; and Ware Grove, Chief Financial Officer.

I'll now turn the call over to Jerry.

Jerry?

Jerry Grisko: Thank you, Lori. Good morning and thank you for joining us for today's call.

We're pleased to share our third quarter performance and to discuss our outlook for the remainder of the year. This is an exciting time for our company as we're in the final stages of closing our acquisition of Marcum and I will provide an update on our progress a little bit later in today's call.

First, I want to highlight the overall health of our business, which was demonstrated by our strong results for both the third quarter and year-to-date.

For the first three quarters of this year, our business has generally performed as expected with total revenue up 7.1%.

For the third quarter, total revenue was up 6.9%.

While our first nine-month results are as expected, we did face some unique headwinds in the second quarter, which impacted our results for that period.

As we commented on our second quarter call, we planned out our results for this quarter being stronger, and they came in as expected, another reason why we do not guide quarter-to-quarter, but only for the full year.

Now turning to the performance of our two primary divisions, starting with our Financial Services division.

The solid organic growth experienced in our core accounting and tax business was primarily driven by pricing.

Our advisory services, which tend to be more project-based and discretionary, also had a solid third quarter with even stronger growth rates than anticipated.

It's also worth highlighting that the performance of our Government Health Care consulting business continues to be very strong. and had a very strong year coming now from new contracts and the expansion of work for existing projects. Within our Benefits and Insurance division, we also experienced growth in all major service lines.

As I've mentioned on past calls, we informally survey a cross-section of our clients at the end of each quarter to hear their sentiment on the economy, plans to invest, opportunities and concerns.

While client sentiment has waned somewhat compared to the same period last year, many of our clients continue to express cautious optimism through the remainder of this year.

As anticipated, concerns around the pending national election, focus on both short-term, potential for market volatility and longer-term regulatory and legislative changes. Clients also cited continuing geopolitical concerns as reasons to wait and see how the next months unfold before committing to material incremental investments in the coming months. Access to talent and concerns around inflation are top of mind for these businesses, but the general outlook of the economy has improved when compared to the same period at the beginning of this year.

As in any time of change, we see opportunities to serve our clients as they navigate this environment, given our unmatched breadth of services and depth of expertise. The health of our business remains very strong, and we're optimistic about the prospects for the business for the remainder of the year. Given our strong performance to date, I am pleased to reaffirm our guidance previously outlined for the full year 2024.

We will provide 2025 guidance including that impacted by Marcum when we announce Q4 and full year 2024 results.

I will now turn it over to Ware to discuss more of the details on our performance for the third quarter and year-to-date.

Ware?

Ware Grove: Thank you, Jerry. And good morning, everyone.

I want to take a few minutes to run through the highlights of the third quarter and year-to-date results we released this morning.

As Jerry commented, major conditions for closing the Marcum transaction have been satisfied.

We expect this transaction may close in coming days. You should note that in connection with this transaction, significant onetime nonrecurring merger-related expenses have been incurred both in the third quarter and then year-to-date.

These expenses are eliminated from GAAP results when we report adjusted earnings per share. You will find a reconciliation of these items outlined in the release. Many of the quarterly pacing items that impacted second quarter results earlier this year have been resolved as expected. Third quarter adjusted earnings per share was reported at $0.84, up over 27% over third quarter a year ago. Adjusted earnings per share for the first nine months this year was up 7.5% compared with a year ago.

The positive momentum established in the third quarter is expected to continue through the balance of this year, and we expect full year 2024 adjusted earnings per share to increase within a range of 10% to 12% over the $2.41 reported a year ago. This full year expectation, of course, excludes any potential impact from the combined CBIZ and Marcum operating results should the acquisition close in the fourth quarter as expected. Total revenue in the third quarter increased by 6.9% with same unit revenue up by 5.1%.

For the nine months, total revenue was up 7.1% with same unit revenue up by 4.6%. Total revenue within our Financial Services group was up by 8.0% in the third quarter with same unit revenue up by 5.2%.

For the nine months, total revenue within Financial Services was up 7.7% with same unit revenue up by 4.5%.

As Jerry commented, all lines of service are experiencing organic growth with increases in pricing continue to drive much of the increase in revenue. Within the Benefits and Insurance group, total revenue was up 3.7% for the third quarter, with all of this growth being organic in nature.

For the nine months, total revenue within Benefits and Insurance was up 4.6% with same unit revenue up by 4.0% for the nine months.

As is the case with Financial Services, all major lines of services are contributing to this growth.

During the first nine months, we made three acquisitions, and we used $78.2 million for these transactions, plus earn-out payments on acquisitions made in prior years.

For earn-out payments for the balance of this year, we estimate additional payments of approximately $7.2 million.

For 2025, we estimate approximately $44.1 million; for 2026, approximately $16.7 million; and for 2027, approximately $7.6 million. Days sales outstanding for the nine months was 97 days this year compared with 96 days a year ago. Bad debt expense this year is 15 basis points of revenue compared with 8 basis points of revenue a year ago.

Capital spending in the third quarter was approximately $2.7 million, and for the nine months, it was totaled approximately $9.6 million.

We expect capital spending for the full year to be approximately $12 million this year. The majority of this spending is focused on tenant improvements in connection with office facilities. Depreciation and amortization for the third quarter was $9.6 million, and for the nine months was $28.6 million.

For the full year, we expect depreciation and amortization to be approximately $38 million.

For those of you who want to make an adjustment, approximately $24 million was associated with amortization of acquisition-related intangible assets. The amount outstanding on our $600 million credit facility at September 30th was $337.3 million, with leverage against EBITDA calculated at approximately 1.5x.

Operating cash flow continues to be strong. The balance on debt at September 30th was approximately $25 million higher than the beginning of the year primarily driven by the $78 million of nonoperating spending and investment in acquisitions.

Over a longer period of time, we have allocated significant capital through a combination of acquisitions and share repurchases.

As we look ahead toward closing the upcoming Marcum transaction, we have a 5-year $2.0 billion committed credit facility standing ready. This new facility is comprised of a $600 million revolver and a $1.4 billion term loan A component. The financing commitment that we announced in July has been successfully syndicated within our existing bank group of seven banks, which will represent nearly 60% of the total new commitment plus an additional 20 banks to round out the commitment. The facility was oversubscribed by 30%, which we believe is a testament to the stability of our cash flow attributes. The newly upsized credit facility is ready to close concurrent with the expected fourth quarter close of the merger transaction.

As outlined in July, initial leverage levels upon closing may be within a range of 3.25x to 3.5x of EBITDA with planned rapid deleveraging to approximately 2x EBITDA within 24 months. This rapid deleveraging will enable CBIZ to continue to allocate capital for future growth through strategic acquisitions, plus provide the flexibility to address share repurchases as opportunities arise.

As we described in July, we expect to continue to achieve margin improvement within an annual range of 20 to 50 basis points.

As we achieve greater scale, we expect greater opportunity to leverage growth and we will strive to leverage revenue growth in a similar manner, consistent with our track record over time with CBIZ.

As we enter the fourth quarter of 2024, we are comfortable reiterating the CBIZ full year expectations for adjusted earnings and revenue growth.

The Marcum acquisition has not yet closed, it is not yet possible to incorporate a forecasted expectation of combined results for 2024. With the fourth quarter transaction close expected, it is reasonable to expect a similar seasonal pattern of results comparable to what you have seen with CBIZ over the years. Considerable effort has gone into integration planning.

Once the merger is closed, we can turn to integrated planning efforts for 2025.

As is our normal practice, when we announced year-end 2024 results, we will be in a position to share the '25 expectations in greater detail at that time.

So to recap, excluding any impact from the Marcum transaction for revenue growth or for adjusted earnings per share and for share count, the '24 expectations for CBIZ remain as follows: We expect total revenue to increase within a range of 7% to 9% for the year. GAAP reported earnings per share is expected to be within a range 1% higher or lower than the $2.39 reported for 2023, due to the Marcum-related acquisition expenses recorded today.

On an adjusted basis, we expect 2024 adjusted earnings per share to increase within a range of 10% to 12% over the $2.41 reported for 2023. The effective tax rate for the full year of '24 is expected at approximately 28%. This rate could be impacted either up or down by a number of unpredictable factors.

And lastly, the fully diluted weighted average share count is expected within a range of 50 million to 50.5 million shares.

So with these comments, I will conclude, and lets turn it back over to Jerry.

Jerry Grisko: Thanks, Ware.

I want to use the remaining time today to provide an update on the strategic rationale behind the Marcum acquisition, the largest in our history.

We anticipate that the transaction will close in the coming days as many of the essential closing conditions have already been met including Hart-Scott-Rodino clearance, CBIZ shareholder approval and approval by the Marcum Partner Group. With revenues of approximately $2.8 billion, over 10,000 team members and offices in 21 major markets coast to coast, upon closing, CBIZ will become the largest provider of professional services of our kind to middle market businesses offering the breadth of services and depth of expertise unmatched in our industries including even deeper subject matter expertise, industry resources, service lines, insights, actionable advice, and new and innovative products and solutions. The combination will also better position us to win the ever-present war for talent.

With our combined size, scale, national footprint, investment capabilities, industry expertise and breadth of services, the new CBIZ will provide our team members even greater opportunities to work alongside the brightest and most talented people in our industries, access the latest tools and technologies, experience best-in-class learning and development, and do even more interesting and meaningful work for a broader variety of clients and play on a bigger national stage. With all this said, while we're also very excited here at CBIZ about the pending acquisition, our focus over the past nine months has been on finishing 2024 very strong.

We look forward to providing 2025 guidance that will include the impact of Marcum when we announce our fourth quarter and full year results in February.

Now let's move to Q&A.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Our first question today comes from Andrew Nicholas from William Blair.

Andrew Nicholas: I wanted to maybe ask a high-level one on Marcum to start.

Obviously, it's been a couple of months now since both your internal client base -- excuse me, employee base and Marcum Partners and employees have gotten to know the deal, understand the deal and potentially get more comfortable with it. Just curious what the feedback has been internally?

I imagine you have been traveling quite a bit speaking to various teams. Just wondering what the feedback is. And any kind of color on what the post-integration, maybe leadership structure might look like or any people from Marcum that you expect to play a big role in the combined firm?

Jerry Grisko: Yes, Andrew, thank you. This is Jerry.

I couldn't be more pleased with the reception that we've had, both from our internal team here, our own team here at CBIZ as well as the Marcum team.

As you suggested both myself, Ware, Chris Spurio and others have spent a lot of time in the Marcum offices and an even broader array of our teams have been working together over the past 90 days to envision the opportunities that will come when we bring these two terrific organizations together.

I shared an anecdote recently where my very first visit to the Marcum office in downtown Manhattan, where when I walked in the office, it came a day after we had done a fireside chat, the CEO of Marcum and myself together.

And as I walk through the office, you could just feel the excitement about the opportunities that were going to come through combining these two organizations. Together, we'll expand our industry groups, 13, I think we have now industry groups.

We have advisory services that we've worked hard to build out over the past almost decade. They can now bring those services to their clients. Like I said, they have strength in advisory -- I'm sorry, in industry groups that they've spent more time in energy building out.

The combination couldn't be better and more complementary and the teams feel that. And kind of going to your second comment, what have we been working on?

We probably have 13 work streams that have been developed, everything from core accounting and tax, all the functional areas, marketing, finance and IT.

We have two in a box is how we refer to it, but basically equal representation from the Marcum team and the CBIZ team working side by side.

We had a meeting about a month ago where we brought all those work streams together.

We had 70 people in the room. You would have thought that those two teams have been working together side by side for many, many years.

The most encouraging part of that meeting was there was virtually no "we've done it this way and you've done it that way and this is the way we need to go forward" and the entire conversation was about how we move forward together and build a foundation and an organization that will take us to even greater height.

So super encouraging, both from what I've seen and what we've experienced and the excitement around the future. To your last question around leadership, we haven't formally announced the leadership structure.

That's to come hopefully in the days ahead as we -- in the next few days ahead as we get close to closing here.

But I will share that they have an extraordinarily strong team.

Obviously, we have a very strong team.

What we'll see coming out of this is a representative sample or a combination of the strength of their team, our team.

I know in my direct reports, certainly if you look at the team that was here 12 months ago, what we'll have is some members of their team joining our senior team in my direct reports, some members of my team are remaining historic team legacy team remaining in those positions.

Then a number of positions that we've gone outside and hired new in the past 12 months.

So kind of a third, a third, a third, but a team that's positioned to take us to even greater heights going forward.

So super excited about the opportunities.

Andrew Nicholas: Great. Thank you very much for that. Then for my follow-up question, Jerry, I think you mentioned advisory being a bit stronger than you expected in the third quarter.

Can you unpack that a little bit?

Where are you seeing pockets of strength?

I think one of the things that you highlighted last quarter is something that maybe underperformed your expectations was on kind of the size of M&A transactions.

So just any other insight you can provide on that and maybe what the pipeline looks like there for the fourth quarter and early next year?

Jerry Grisko: Yes. So the strength really almost across the board, the combination of all of our advisory services performed really strong in the third quarter.

As you know that's a little less predictable, tends to be more project-based, tends to be more episodic.

It really came in pretty strong across the board.

We were pleased with the activity that we saw on the PE advisory side, the amount of activity there.

So deal flow, albeit not the larger transactions still were not as strong as they were, say a year or two ago, but we had more transactions.

So more work, smaller pieces, but very strong performance in that group.

So very encouraging.

Operator: Our next question comes from Chris Moore from CJS Securities.

Christopher Moore: Good morning guys, thanks for taking a couple. So in terms of -- it looks like a lot of the organic growth you mentioned a couple of times was from pricing.

I guess I mean normally think about 1% to 2% increase in pricing per year. Maybe just talk a little bit about what's going on there?

And is it likely that we're back to the 1% to 2% next year?

Ware Grove: Yes. Hi Chris, this is Ware.

We continue to get relatively good increases driven by pricing and kind of more efficiencies in engagement management, combination of the two.

But when you look at the organic revenue, and it's particularly easier to measure this on the Financial Services side, a good 80% to 90% of the increases there continue to be driven by pricing.

We've got efficiencies and improved realization and yield on engagements that also drives the top line.

To your other question, I know we've commented before that with the inflationary rate lower than it was in recent years, it's reasonable to expect the commensurate reduction in pricing.

So pricing is not 1% or 2%, it's higher than that, but it's lower than it has been in recent years.

Christopher Moore: Got it. And Government Health Care Services, it sounds like it's back.

It's growing nicely and was that a surprise.

Or you could see it from kind of what's happening out there?

Ware Grove: Yes, absolutely. Great question.

We can -- we've seen that.

and you’re probably referencing the stumble we had midyear a year ago.

Second half last year was good.

First half this year was terrific year-over-year.

And that growth continues to grow at kind of the higher single-digit rates again. Cautionary note that as this business grows, and it's now cresting $200 million a year. That rate of growth on a percentage basis is harder to achieve, but it's very healthy. They're having a great year.

Christopher Moore: Got it. And maybe just one in terms of Marcum.

We're talking about leverage being somewhere 3.2-3.5 post close and then 2.1-2.3 within 24 months. Just from a -- I mean from a deleveraging perspective, is that more back half loaded as -- is most of that deleverage going to happen in, say in 2026?

Or is that reasonably smooth?

Ware Grove: Yes. A couple of things, Chris. We've got the seasonal nature of the business.

So on a combined basis, the seasonal nature will be pretty similar to what you've seen with CBIZ over the years.

That means that in the first quarter and the first half, we typically use cash.

We build up receivables.
And then as those receivables liquidate in the third and fourth quarter, we generate sufficient cash and net.

It's a very positive cash flow on a business on an annual basis.

So to that end, as we close and we initially come out of the gate with those higher leverage amounts, you might see that leverage steady to maybe even tick a little bit higher in the first half of '25, and I think we've talked about that back in July.

Then, of course, liquidate through the second half of '25.

Then a similar pattern in '26.

So by the end of the second year, it should be down around a 2x leverage.

Of course, the first year, we also have burdened with some of the transaction expenses and integration costs and things like that.

But the cash flow attributes of the combined business should be very strong and very steady in a similar nature to what you've seen with CBIZ over the years.

Got it – I appreciate that and I'll leave it there.

Operator: (Operator Instructions) Our next question comes from Marc Riddick from Sidoti.

Marc Riddick: Good morning everyone. I wanted to touch a little bit on the pricing dynamic, again for a moment, if we could.

I was sort of thinking about the efforts that you've made over the years to strengthen pricing.

I was wondering if there was sort of a common thread or component in the pricing gains that you're seeing as well as maybe if there's any revenue mix benefit that we should be thinking of, whether that ties to the commentary that you had on the discretionary project-based work or how we should be thinking about that part of it?

Ware Grove: Yes. Let me -- there's a lot to unpack there.

So let me just give you some information, and hopefully, I'll address your questions.

But just to rewind the tape a little bit, we put some tools in place five or six years ago that helped us really take a granular look at our engagement profitability and yield and pricing actions.

That then enabled a really targeted ability to look at specific clients and specific service lines, specific books of business and things like that with action plans to get pricing, okay?

Now you don't get a pricing 100% of the time.

So there is a little blow back but minimal, we've experienced minimal over the years.

Interestingly -- and so you've seen the pricing in recent years really be a major driver, a major contributor to the organic revenue growth.

It continues to be a major contributor yet, again this year.

I think the message is that we've now baked and embedded that approach into our annual planning, our annual engagement renewal cycle and it's to be expected.

Now it's not always going to be 7%, 8%, 9% like it was in recent years.

So this year, it's maybe half of that.

But kind of commensurate with the underlying inflation rate.

Then the other thing we can say is with respect to Marcum, I think we said this before, they have a very similar approach.

So I think this is something that, together, we're totally in sync as we combine operations.

Marc Riddick: Excellent. Then one quick -- one of your comments and maybe sort of think about this, and I haven't thought about before.

Is there sort of an update that we should be thinking about as far as client retention that you're seeing?

And maybe if you -- it might be early, but if you can speak to client retention trends that you've seen historically with Marcum?

Are they similar to what you've seen?

And how do you think that might be combined?

Jerry Grisko: Yes. Thanks, Marc. To answer your question, Marcum's client retention rates are very similar to ours, which is very encouraging.

I think we're at the top -- certainly quartile decile of our industry based on all the information we see, and they're at the same place.

So not like there's something to fix there.

They're already best-in-class, and we would expect that to continue for both organizations going forward.

Thank you very much.

Operator: And ladies and gentlemen. with that, we'll be concluding today's question and answer session.

I'd like to turn the floor back over to Jerry Grisko for any closing remarks.

Jerry Grisko: Yes. Thank you, as I always do, I want to end today's call by thanking our shareholders and our analysts for your continued support.

I also want to thank our CBIZ team and extend our gratitude to the members of our new team from Marcum.

As we prepare for the closing and integration of these two organizationsand the vast opportunities that lie ahead, our people continue to rise to the challenge in so many ways. Through our commitment to serving our clients, creating value for our shareholders and supporting our team and each other, we're unlocking incredible opportunities for the future.

As I've said a number of times internally and to our new Marcum team, I've never been more excited for our future, and I'm proud to recognize the strength and dedication of our collective teams that have made this moment possible. Thank you, all, and we look forward to speaking at the conclusion of the year.

Have a great day.

Operator: Ladies and gentlemen, the conference has now concluded.

We do thank you for attending today's presentation.

You may now disconnect your lines.