

CBIZ, Inc. (Q1 2025 Earnings)
April 24, 2025

Corporate Speakers:

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

Participants:

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

PRESENTATION

Operator: Good day. Welcome to the CBIZ first quarter 2025 Results Conference Call. (Operator Instructions) Please note this event is being recorded. I would now like to turn the conference over to Lori Novickis, Director of Corporate Relations. Please go ahead.

Lori Novickis: Good morning, everyone and thank you for joining us on today's conference call to discuss CBIZ's first quarter 2025 results. As a reminder, this call is being webcast and a link to the live webcast along with today's press release and investor presentation can be found on the Investor Relations page of our website, cbiz.com. A replay and transcript will also be made available after the call. 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 only 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 financial filings with the Securities and Exchange Commission.

Joining us for today's call are Jerry Grisko, President and Chief Executive Officer; Brad Lakhia, Chief Financial Officer; and Chris Spurio, President of our Financial Services division. I will now turn the call over to Jerry Grisko for his opening remarks. Jerry?

Jerry Grisko: Thank you, Lori and good morning, everyone. I'm pleased to be able to provide an overview of our strong first quarter performance and results, along with an update on our progress with integration following our acquisition of Marcum in November of last year.

Overall, our integration efforts are on schedule, and we are encouraged by the outstanding collaboration we are experiencing among our teams, as we build on the best of both legacy organizations and continue to position ourselves as the premier provider of professional services to the middle market.

Now before I turn to our results, I want to take this opportunity to highlight the key attributes of our business model and how these attributes enable us to perform relatively well even in more challenging economic environments, such as the one we faced in the first quarter.

First, approximately 77% of our services are essential and recurring, meaning that our clients need these services regardless of business climate. We also have strong and consistent cash flows, high client retention rates, a broad geographic footprint, serve businesses across a diverse set of industries and are not overly concentrated in any one market or industry.

Also inherent to our business model is a high degree of variable expenses that serve as leverage we can pull to manage our expenses in response to changing conditions including a compensation structure tied to growth, profitability and other key performance metrics. Those attributes have served us well throughout challenging economic environments in our history, whether it was through the great financial crisis or the pandemic.

Our historic performance during those times demonstrates our ability to successfully position our business to deliver relatively strong earnings results and at the same time improve the strategic positioning of our company to emerge even stronger when conditions improve. When assessing our revenue results for the first quarter, it is important to recognize that we find ourselves in a rapidly evolving, ever-changing and increasingly uncertain economic and geopolitical environment.

While the essential nature of many of our services makes us more resilient, our overall business and our clients are not entirely immune to the challenging business climate and our Q1 revenue results and full-year outlook should be viewed through that lens.

With that said, I am very pleased to report that our business model enabled us to continue to deliver very strong results for the first quarter. Among the high notes, the essential compliance portion of our core accounting and tax business generally performed as expected through the traditional busy season. There are a number of areas of our business that we expected some revenue softness due to a special project work that we performed in the first quarter of 2024 that we knew would not recur to the same degree in 2025.

Our revenue was also impacted by the anticipated loss of a number of clients due to conflicts that prohibit us from continuing that work related to the transaction. In addition, the current economic and geopolitical environment has had a significant impact on a number of industries that affect our clients, including the capital markets and not-for-

profit industries as well as on certain of our advisory services, which tend to be more project-based than discretionary.

On a positive note, our government healthcare consulting business continues to build out a strong pipeline of new projects and posted very strong revenue growth in Q1, and our Benefits and Insurance business also performed very well with growth coming from nearly every service line.

In summary, we are very pleased with how the business performed for the first quarter with strong earnings and consistent cash flows. As we look forward to the rest of the year, we recognize that we may continue to be operating in a more challenging economic environment, and we are taking all appropriate steps to continue to protect and grow our earnings in the event that the business climate does not improve.

Based on the fundamental attributes of the business that allows us to protect profitability, we are pleased to be able to confirm and maintain our previously announced guidance for adjusted EBITDA and adjusted EPS.

However, based on the business climate we experienced through the first quarter, continued uncertainty for the months ahead and the proportion of our work that is more discretionary through much of the remainder of the year, we are widening our revenue guidance to be within a range of \$2.8 billion to \$2.95 billion.

At this point, I would like now -- to now introduce Brad Lakhia, our new Chief Financial Officer, who joined us in March following the retirement of Ware Grove.

We welcome Brad to our team at a time of incredible opportunity as we integrate Marcum and position our company for accelerated long-term growth. Brad brings nearly 30 years of experience within larger complex companies across a broad range of financial disciplines including capital markets, M&A, treasury, financial planning and analysis and Investor Relations. I'm pleased to welcome Brad to the call today and look forward to connecting him with our shareholders and analysts following the call. I'll now turn it over to Brad.

Brad Lakhia: Thank you, Jerry and good morning, everyone. I'm happy to have the opportunity to join you today on my first CBIZ earnings call and I'm excited to work along Jerry, the entire CBIZ team and our investment community.

Before I discuss our first quarter financial results, I want to start by providing a few reminders regarding some financial reporting impacts we highlighted on our last earnings call that resulted from the Marcum transaction.

First, to be consistent with our 10-Q MD&A and due to complexities associated with providing accurate comparability, we will not be providing same unit comparisons in 2025. These complexities include a number of factors such as accounting policy differences, impacts associated with integrating businesses, teams, systems and business

processes. We plan to reassess our ability to provide same unit comparisons once we lap into our 2026 financial reporting periods.

Second, to facilitate a better understanding of our operating performance, we are reporting adjusted non-GAAP financial metrics, which include adjusted EBITDA, adjusted net income and adjusted diluted earnings per share. For 2025, these adjustments will relate to acquisition and integration-related costs, non-cash intangible acquisition amortization expense and facility optimization charges. Reconciliations to these non-GAAP measures are provided in the supplemental schedules included in our earnings release published earlier this morning. Lastly, our 2025 results will reflect the impact of higher share count and higher interest expense, both of which are directly connected to the funding of the Marcum acquisition. With that, I'll turn to our results.

As Jerry indicated, our overall performance met our expectations. And with the full quarter of the acquisition now reflected in our results, we are beginning to experience the scale and accretive benefits associated with this transformative acquisition. We are equally pleased to see the combined team collaborating to pursue the unique growth opportunities that are enabled by the OneCBIZ service client offering.

On a consolidated basis, first quarter revenue increased 70% from \$494 million to \$383 million due primarily to the acquisition. Adjusted EBITDA doubled from \$119 million to \$238 million, reflecting the strong margin and scale attributes of our business model as well as the meaningful accretive impact of the acquisition. Please note, going forward, we expect to focus our profitability reporting using adjusted EBITDA given higher interest expense levels.

In the past, we focused primarily on pretax income and margins, and we targeted 20 to 50 basis point improvements annually on that pretax margin. Going forward, we will target 20 to 50 basis point improvements of annual adjusted EBITDA margin improvement. Pretax income was \$173 million, up \$69 million or 66%.

When we announced the Marcum acquisition, we said we expected it to be 10% accretive within the first year. Therefore, we are pleased to report adjusted diluted EPS increased approximately 40% in the first quarter from \$1.63 to \$2.29 per share. The lower drop-through rate from adjusted EBITDA to pretax income to adjusted net income and EPS is explained primarily by higher interest and tax expense. Interest expense was \$21 million higher than last year due to increased borrowing and borrowing rates resulting from the acquisition funding.

Our effective tax rate increased approximately 300 basis points, reflecting \$5 million in higher tax expense. The increase in our effective tax rate is primarily driven by the addition of legacy Marcum revenue coming from jurisdictions with higher rates. Higher interest expense and tax rate represent an impact on GAAP diluted EPS of approximately \$0.23 and \$0.08 per share, respectively.

Our Financial Services segment, first quarter revenue was \$714 million, up \$341 million or approximately 92%. Financial Services adjusted EBITDA doubled to \$230 million, reflecting an adjusted EBITDA margin of 32%, which was similar to last year.

And our Benefits and Insurance segment delivered revenue of \$113 million, up \$5 million or approximately 4%. B&I adjusted EBITDA was \$30 million, up \$3 million or 10%. B&I adjusted EBITDA margin was 27%, up nearly 150 basis points versus last year. The revenue and profitability improvements were driven by nearly all B&I service lines, and our B&I team is engaging aggressively to pursue a strong pipeline of Marcum-related cross-serving opportunities.

In terms of cash flow and net debt and consistent with prior years, we experienced seasonal peak levels of working capital usage during the quarter. DSOs were 96 days, five days lower than prior year, driven by improved collections. Total debt at the end of the quarter was approximately \$1.5 billion, and we had approximately \$385 million of unused capacity on our \$2 billion facility.

As a result, our leverage at the end of Q1 was approximately four times or approximately a half turn higher than year-end. This increase is consistent with what we experienced prior to the Marcum acquisition. And as we discussed on prior calls and assuming we use all or most of our free cash flow to reduce debt, we estimate our leverage could be 2 times to 2.5 times by the end of 2026. Turning to our outlook and guidance items our adjusted EBITDA and adjusted EPS guidance is unchanged.

However, the uncertainty in the current economic and geopolitical environment has already led to softness in our non-recurring service lines, and that is a trend we expect to continue. Nonrecurring services now represent approximately 23% of our revenue. Given this uncertainty and the company's limited visibility into forecasting demand for these services for the balance of the year, we now expect full year 2025 revenue to be within a range of \$2.8 billion to \$2.95 billion. And as we have previously said, we have a range of variable cost items that we can fairly quickly adjust to mitigate the uncertain impacts of our top line. We expect approximately \$60 million of payments in 2025 related to prior acquisitions, primarily earn-out payments, of which \$30 million was paid in the first quarter.

We expect another \$30 million of payments related to prior acquisition-related earn-outs in 2026 and approximately \$10 million in 2027, and we continue to estimate between \$20 million and \$25 million in capital expenditures for 2025, of which \$5 million was incurred in the first quarter. Depreciation and amortization was nearly \$25 million for the first quarter and we estimate approximately \$100 million for the full year. And we continue to expect approximately \$25 million in synergies with the majority to be delivered in year two and beyond.

Finally, as a reminder, approximately 4.4 million shares will have been issued to former Marcum Partners and will become eligible for resale effective May 1st, 2025. After May 1st, there will be an additional approximately 300,000 shares delivered monthly through

2027. All of these shares are subject to our first -- our right of first refusal and we're authorized to repurchase up to 5 million shares. We'll be prudent and disciplined in managing our share repurchase program. With that, I'll turn it back to Jerry.

Jerry Grisko: Thank you, Brad. Before we move to Q&A, I want to provide further update on our progress with integration and our M&A strategy going forward.

As we are wrapping up our traditional financial services busy season and most of the time sensitive client deadlines will soon be behind us, we now have the opportunity to accelerate our integration efforts, deepen collaboration and move forward with key initiatives and strategies that will begin to unlock the synergies and growth potential of our exciting combination with Marcum. A major area of focus in the months ahead will be the integration of our technology systems and moving our teams onto a unified technology environment. This is one of the most critical enablers to operational improvements, process standardization and our ability to drive consistency in everything from delivery of client services to our team member experiences.

Once in place, these integrated systems will allow us to streamline and automate processes, enhance data visibility and analysis, and ultimately deliver greater value to all of our stakeholders.

As with every step in our integration process, we will continue to take a thoughtful and intentional approach, balancing progress with change management and training to support a smooth transition for our entire team.

As we reflect on the past few months, I'm incredibly proud of the progress we've made on many fronts from identifying a group of incredibly talented leaders to drive our most impactful strategic initiatives to establishing new operating models. For our people, we continue to see high retention and strong engagement, and we're gathering feedback and input along the way.

In terms of future M&A, with the successful completion of the Marcum transaction and our continued progress with integration, we're seeing an increased interest in CBIZ as an acquirer of choice. We expected this outcome and are thoughtfully evaluating a number of opportunities that will continue to build on our geographic presence in key markets and add strength to our existing service lines.

Finally, I want to touch on two items that Brad touched on, I touched on in my opening remarks, specifically relating to organic revenue growth and our guidance for the year.

As it relates to organic revenue growth, as you know we've historically provided that guidance annually throughout the year. The reason that we were not able to do that this year is because when we look at the Marcum numbers, they were private, obviously before they joined CBIZ. It's very difficult for us from an apples-to-apples comparison to have a good baseline for them, a good reliable baseline on their organic growth and -- so we just really don't have good line of sight. More importantly, we've already, as you

would expect, and we expect, we've already begun to bring these businesses together. Regionally, we're combining their offices with ours.

We have combined leadership or combining our teams. So, while we do have a little bit of line of sight in the first quarter, that's going to be even more difficult as we progress throughout the year. With that said, we did have some line of sight in the first quarter, and I want to lend that to you.

Based on the internal analysis that we have, very encouragingly as expected, the recurring portion of our accounting and tax business, both within legacy CBIZ and legacy Marcum performed as expected in that mid-single-digit range as well as our Benefits and Insurance group performing within that mid-single-digit range. So, I just want to convey that message that we're pleased with the performance of the business through the first quarter and where we expected it to be strong, it was strong, that being in our seasonally kind of predictable, more heavily, more recurring business in the first quarter.

I also want to touch on a couple of things. I noticed that there were some comments around our revenue not hitting guidance -- or I'm sorry, expectations, consensus for the year, that really falls into two buckets. As you know we don't guide quarterly. We guide annually.

So let me kind of bring a little bit of color to that. The two buckets are the known things. We knew some things that we couldn't convey to the analysts that created the consensus. And that resulted in about a \$30 million change, and it's really pacing and timing on the year. But we had about \$30 million in category. One being the SPAC business. We've talked a lot about this. Marcum within their capital markets practice traditionally did a lot of SPAC work. That work predictably has been winding down from a peak in 2023, and we saw it decline in '24 and expectedly decline again in '25. We're not concerned about that.

We know that we'll sell over. There's other parts of the business that are in fact increasing, but we knew that SPAC business would wind down. The other thing that we expected, we've talked about this, we haven't quantified it, is there were a couple of portions of the business that we were going to have conflicts with. Most notably, on their healthcare side, Marcum had a healthcare practice. That was in conflict with our government healthcare consulting practice. That's another piece of that.

And then, of course as you know we announced last year, we sold our KA consulting business, that was in last year's number, isn't in this year's number. That's about impact on the quarter of about \$30 million of known items. The unknown portion of it was really related to the economic climate. And I'll -- while there's a number of items there, I would just say it was the impact on the capital markets.

So, our SEC audit practice and the work that we would traditionally do there. When that - - when the markets just kind of hit the pause button as a result of some of the policies of the administration that work just kind of halted, no one saw that when we began the year.

And of course it had a like impact on our advisory practice. So those two things are about \$20 million. So combined, about \$50 million. Again, we don't guide the quarters. But when I saw the comments that we missed the consensus, I would say it wasn't far off. Our results weren't far off our internal expectations, certainly on the items that we knew and expected. Lastly, turning to guidance. We're really pleased, and again the model affirms that despite some of the softness on the top line, we're able to yet affirm our earnings guidance for the year and other earnings-related metrics. From a top line, we don't want the message to be concerned over optimism or health of the business. That's why we didn't guide down on the top end of that. The guidance is really just a result of kind of a pragmatic look at what we've seen so far in the year and what we expect to see through the continuance of the year if conditions don't improve, again with 23% of our revenue really being more advisory project discretionary side.

We thought it was prudent at this point to widen that range on the revenue side because we know some things now that we didn't know when we gave that guidance. But in no term should it be viewed as a lack of optimism about the prospects for the range of the business. In fact, we have some line of sight that if things improve a little bit, we will, in fact, hit that original guidance, but we wanted to broaden that range. So, with that, I'll turn it over to Q&A.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Our first question comes from Christopher Moore with CJS Securities. Please go ahead.

Christopher Moore: Hi, good morning, guys. Thanks for taking a few questions. Maybe I'll just start with where you left off, Jerry, in terms of the nonrecurring services represent about 23% of revenue. You called out capital markets. Are there (technical difficulty) concerned about (technical difficulty) would be softer if you were to be closer to the low end of that revenue range?

Jerry Grisko: Yes, Chris, thank you for the question. I would say capital markets is a big piece of that. The other thing is anything deal related. As you know we have a pretty sizable private equity practice that really relies heavily on deal flow. We've seen -- that's a mixed bag, right? We saw kind of through part of this year through the first kind of quarter, we saw some softness. We're actually seeing some encouraging kind of activity in the pipeline, and it's almost kind of month by month, right? As tariffs are imposed, activity slows, this kind of 90-day has actually increased our pipeline. So, it's just very difficult to predict. So that's a sizable part of our practice. And then we do a lot of other work that's kind of harder to quantify and identify. But related to transactions when our clients are selling, of course we help them in that process. When our clients are buying we help them in their practice. It's not all within that PE practice. It's kind of within our core advisory and core accounting business. So, there's a pretty heavy reliance on M&A, and we just don't have a lot of visibility into what that might look like this year.

I will also comment on that note that we serve predominantly a middle-market client. That client tends to be very optimistic and resilient kind of regardless of business conditions. But what they do need is line of sight, right? And I think the thing that's been unique to this -- the start of this year is the uncertainty almost week to week and certainly month-to-month that they're seeing. If we get more predictability in kind of what the landscape looks like, then our optimism as to what those project works will look like will obviously improve. It's just been a very uncertain environment for us.

Christopher Moore: Got it. Very helpful. You mentioned strong government healthcare consulting during Q1. And just given the current conditions, just trying to get a sense of whether you expect that to continue? And is there potentially an opportunity here from some of the -- just some of these government entities will need more help from you if some of the cutbacks (technical difficulty).

Jerry Grisko: Yes, Chris, that's exactly the way we're looking at it. The question that we get sometimes is how much of your total revenue is tied to these several contracts. Within that government healthcare consulting business, it's about \$40 million directly related, but there's also an indirect relationship in that the work that we do on the Medicaid side is in part dependent on getting data from the federal government. So -- but as we sit here today we actually are on the -- I think the right side of the DOGE and the efforts around cost containment and savings because, in fact, the work we do is work that supports that, right, making sure that the programs are in compliance, making sure that I's are dotted and T's are crossed. So, when we talk to our team on that side of the business, they're quite encouraged right now by not only how the business performed through the first quarter, but the outlook for the business for the remainder of the year.

Christopher Moore: Got it. Maybe just last one for me. So, integration costs related to acquisition it's obviously a big piece of the add-backs, I think it was 15.7% this quarter. Can you just -- can you break that down into a few more primary buckets and maybe give us a sense as when that will start to meaningfully decline? Is that next year? Is that later this year? Or just how you're looking at it?

Jerry Grisko: Yes. I think the total amount that we have kind of earmarked for, again it's kind of excluding real estate, is about \$75 million, (technical difficulty) will come this year, but we will have a significant -- we'll have a significant IT-related portion of that kind of into '26. But a large portion of the \$25 million will come into this year -- I'm sorry, the \$75 million will come into 2025.

Christopher Moore: Got it, I'll leave it there.

Brad Lakhia: Chris, this is Brad. I just want to point out on the facility-based integration. We haven't provided any outlook on that at this point in time. We're starting to obviously get -- the integration team is starting to get its arms around what that's going to look like, how it's going to unfold kind of market to market. But those facility optimization costs will probably be more pronounced next year. So obviously when we're at a point where we can provide more information, we have better line of sight to that, we will. But that

currently is not incorporated just generally speaking, in what we provided. I just want to remind you of that.

Christopher Moore: Got it, I appreciate that. I'll jump back in line. Thanks guys.

Operator: The next question comes from Andrew Nicholas with William Blair. Please go ahead.

Andrew Nicholas: Hi Good Morning, thank you for taking my questions. First question, just to clarify on the revised revenue guide. Can you speak to kind of the conditions that the bottom end of the new range would assume. Jerry, you talked about, I think \$20 million of headwind that was a little bit unknown in the first quarter, SEC auto practice, maybe there's some transactional headwinds there in the PE business. Should we assume that continuation of that would get you to the bottom end? Or is there some cushion if things were to get worse from the prevailing run rate?

Jerry Grisko: Yes. Andrew, we think it's a pretty reliable range at this point. And here's how we got there, right? We basically -- to your point, we looked at kind of how the business has performed so far in the first quarter, we kind of annualized that through the rest of the year. And again, we're certainly hopeful that things will improve. But we said if they don't, what could that look like?

Again, with 23% of our revenue kind of tied to kind of more project and discretionary work. We also looked at how the business performed in kind of the two most analogous periods that we've seen, most notably or most recently was kind of Covid. In Covid, that portion of the practice was down 10% to 15% if you do the math on that. So, we basically looked at our range that we had originally provided, which we were very, very comfortable with, obviously at that time.

But through that lens, we said, look, the environment is a little bit different today when we go and say how did it perform, the business performed during that period of time again Covid down 10% to 15%. What would that look like?

How did the business perform in the first quarter, let's annualize that. Again, kind of a pretty pragmatic approach to let's just widen that range. Again, I will emphasize that we have line of sight to hitting the original guidance, but we just thought it was such a tight range that we'd rather kind of address it now than throughout the year.

Andrew Nicholas: Yes, makes sense. That's helpful. Obviously, I just asked a question about revenue, but you are maintaining the earnings guide even despite those potential headwinds. So, can you maybe just spend a little bit more time talking about the puts and takes there? Like what are the things operationally that you're doing, if anything, to offset some of those pressures versus things that are inherent to the model in terms of variable comp and the like? Then also if there are any synergies that are included in the '25 that you have visibility on that you might not have a handful of months ago?

Jerry Grisko: Okay. Yes. So, let me -- before I get to that, kind of what related, let me talk a little bit about pacing, right? So, the other thing we didn't do is raise our guidance on the earnings side for the rest of the year. So, while we're ahead of guidance, right now we're being pretty pragmatic in looking -- or we're ahead of consensus, I guess. We're pretty pragmatic in looking at the rest of the year and basically saying as we suggested at the year-end call the pacing is going to be a little bit different than what you've seen historically just because of the acquisition and the seasonality of the business now. So, we're maintaining that full year guidance despite the fact that I think we're ahead of consensus really on that side. So -- but to more specifically answer your question, I think naturally, as you've seen with our business, even when we have a more challenging economic environment or business climate that affects our revenue, we nonetheless have a considerable number of levers that we can pull to protect the earnings side of the business. They come in these buckets really.

One is around kind of our people and comp costs. Our comp structure is designed to reward growth. When we get that growth, there is meaningful upside bonus and other consideration that we're pleased to be able to reward to people. We kind of accrue that ratably throughout the year. And so, in periods of time when we're not seeing that growth, obviously those amounts can be reversed, right? We wouldn't accrue if we're not getting the growth or we're not getting the performance.

Also, with kind of a little lighter demand for certain of our services, we're not filling headcount to the same degree. So, it affects compensation that way. We've also had really encouraging progress on outsourcing and our reliance on outsourcing that favorably impacts those metrics as well. So, there's a number kind of on the people side. I would say that's about two-thirds of the adjustments that we've been able to make or savings we've been able to incur.

Then the other third is around what you would just expect on discretionary side T&E, advertising, recruiting costs, those types of things are all kind of naturally lower during this period of time. So, I'd say two-thirds, one-third, and we experienced that in the first quarter, and we'd expect to be able to continue to pull those levers if we don't see improvement in the top line.

Andrew Nicholas: Very helpful. Thanks Jerry. Then maybe just one last one on capital allocation. I think you've talked since the Marcum announcement about a willingness to buy back some shares if the opportunity presents itself, also kind of save up or consider deals maybe later this year or early next. Just in light of the current environment and what you've seen so far with Marcum in the first half year or so, if you could just kind of give us an update on prioritization amongst all those different items, that would be great.

Brad Lakhia: Hi Andrew, Brad here. Appreciate the question. So, listen, I think I'll start by saying in the quarter, I'll remind you kind of what I said previously which is our working capital usage was consistent with what we expected and consistent with our prior patterns that we saw from just a general legacy CBIZ perspective. And really, our

cash generation or cash usage, I should say in the quarter, was a little better than what we expected. So, we were encouraged by that.

Turning to your question, I guess from a capital allocation perspective, remember, historically, we prioritized organic and inorganic opportunities. So, in terms of using free cash flow for those opportunities. And then really, that was kind of followed by shareholder returns, right, and then keeping our leverage usually around 2.5 times or below, flexing for higher leverage for strategic opportunities. So that was our historical capital allocation priority.

I'd say going forward here for the next year or two, Andrew, we are focused on getting our leverage back down. So, we'll be continuing to focus on getting our debt down to underneath 2.5 times. And we feel, like I said, with free cash flow generation, that we should be able to get there by the end of 2026. But we're also going to be very, very opportunistic and be kind of ready and flexible to do some things strategically if the right opportunity presents itself. Then as you said, we have the opportunity to deal with our share repurchase program.

We have shares coming back on the ROFR potentially. And we feel like we're very, very well positioned to be able to do the right thing there and be prudent and financially disciplined. So those will be our priorities here over the next year or two.

Andrew Nicholas: Thanks Brad.

Operator: (Operator Instructions) Our next question comes from Marc Riddick with Sidoti. Please go ahead.

Marc Riddick: Good morning, everyone. Brad, welcome. Looking forward to working with you going forward. I wanted to sort of touch a little bit as the mention on the client's reception. I guess it's sort of a combination, right? There's the general retention, which seems to be fine. Then the client complex, which -- some of which are obviously to be expected. Can you talk a little bit about how the -- as you sort of discovered where the conflicts are and how they've risen to this point, what your thoughts are as to the timing of those impacts and how that played into guidance for the remainder of the year? Do you think you're kind of through most of that? Or how should we think about that as sort of go through that process?

Jerry Grisko: Yes, Marc, I'll take it. Let me deal with the client side first. Let me start here. Whenever you combine two organizations of our size, it's inevitable you're going to have some client conflicts, you can't continue that work. We knew about the healthcare practice.

We modeled that. And by the way the numbers that we experienced, which are all behind us at this point, are within the model. We also expected that there would be some de minimis amount of additional client conflicts that were going to occur.

It might be as simple as we're doing attest work for the engagement, and that was legacy Marcum was doing that attest work and legacy CBIZ may have been providing a commissioned insurance product. The independence rules prohibit us from doing those types of things, so we have to shed the client.

So, I will tell you, it's not a large number in the scope of our total revenue, and it's also within the range that we had within our model, at least what we've experienced so far. We don't think -- we think most of that is behind us as well. So, again as expected within the model, but year-over-year, it certainly did impact the comparable numbers year-over-year.

Marc Riddick: Okay. Then I was sort of curious as to the -- I guess maybe the timing of when you began to see impacts on the audit practice and advisory work. I mean it's interesting because it's something you can sort of point to and say "Oh, okay. That was when the tariffs were announced or what have you." Is there sort of any particular signpost? Or was it sort of a gradual process as far as the timing of when some of those impacts were seen?

Jerry Grisko: Marc, truthfully, I did not ask that specific question. But what I've learned - - and again just remember that that's a practice that kind of SEC PCOB practice is one that legacy Marcum brought to us, by the way great practice, great people, great opportunity. We're excited about it, but not one that we had before. So, as to how that -- the client work evolves and comes the timing, some of those things, it's just new to us as well. But when we asked the question, it was logical, right?

They -- the response is that many of the clients that we're serving there are going out regularly for financing, they need comfort letters, right? If they're not raising funds, they don't need those comfort letters. They're filing S-1s. There's a considerable amount of work to be done when they do those things. If that work stalls, that work doesn't get done. Now that's not to say that work won't come, it will come, I think naturally, as the market improves and as optimism improves, we just can't predict the timing. So, there's a little more uncertainty around even that portion of the practice than we've historically experienced.

Marc Riddick: Okay. That's very helpful. And I was sort of curious as to -- I'm not sure if we discussed the pricing environment. Have you seen any changes there? Or anything that's different than what you would have originally experienced as far as just general pricing trends?

Jerry Grisko: Yes. I guess I have two responses to that, Marc. Great comment.

As you know we, I think ahead of others in the industry have really a very disciplined approach to pricing and making sure we have pricing and processes behind it and reporting and follow-up and training, all of those things. So, we've had considerable success in pricing over the past couple of years. We've actually seen -- and yield is kind of our proxy for pricing. We've actually seen really nice lift in our pricing through the

first quarter. The second part of that, I said there were two parts. The second part is inevitably if the market continues to be a more challenging environment and work is harder to come by people look to keep their people busy and oftentimes, that translates into people lowering rates. So, we haven't seen that yet, but I wouldn't be surprised that we'd see a more challenging environment in the future if the business climate doesn't improve there.

Marc Riddick: Understandable, thank you very much.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Jerry Grisko for any closing remarks.

Jerry Grisko: Sure. Thank you. As we wrap up today I always -- as we always do, I want to thank our shareholders and analysts for joining us and for your continued support. There's a headline that I'd like to leave you with today and that is the business, despite revenue -- some revenue and some macroeconomic kind of pressures on the business, the business performed very well, right? And it performed as it should in this climate. Very strong earnings number, right?

And so even environments where the revenue might be off a consensus a little bit, we were able to deliver very strong earnings and, in fact, ahead of consensus a little bit. The other high note is the core business -- the core recurring business, both on the benefits and insurance side and on the core accounting and tax side continue to perform as expected and within the range of the mid-single digits that we had guided, again very encouragingly. The integration, again it's no easy task to bring two organizations of this size and scale together on schedule and by all accounts going very well.

We have a very disciplined process behind that. I'm doing -- I'm having regular check-ins with our team and things are on schedule and very pleased. We kind of look at it every week as a red, yellow green, and it's almost green always across the board. So, we have a strong team working on it, strong leadership working on it and very happy there. Then maybe most encouragingly, just kind of the cultural alignment. You don't know what you're going to find when you bring two organizations together. And just the -- I wouldn't say cultural identical, but cultural alignment has been far better than expected. Legacy Marcum brought to us really strong leadership. They brought exceptional talent. They brought a really strong culture. That combined with our extraordinary culture is you can feel it. You can feel when you go in the offices, you can feel as a team sit around the table and collaborate. So, we couldn't be more pleased sitting here today in light of all the work that everybody has put into getting us to where we are with how we're proceeding through the first quarter. More importantly, and I've said this to our team, and I'll say to you, the future has never looked brighter. Just as a reminder as to why we brought this together. We now have scale that we never had before.

That scale will allow us to make investments in the firm to continue the growth and success in all the areas that we need to continue to invest in the business. It will provide us with the ability to go to market and provide our clients and our prospects with services

and solutions that we feel are unmatched by any of our competitors in the industry. And equally important, position us to be able to win that work for talent by offering people career opportunities that they would never have had in a smaller organization or one that doesn't have the culture and the commitment to people that CBIZ has. I mentioned the client side.

On top of scale, if you consider CBIZ today compared to anyone else that might be in our peer group, we are unmatched, not only in our geographic presence, in our breadth of services, but in our industry expertise. And on that industry side, we now have eight industry groups with revenues between \$100 million and \$300 million.

We actually have identified 12 industry groups. The power of bringing our breadth of services, our depth of expertise, a holistic approach to the solutions that we can bring to those clients, again unmatched. And so, while there's no question, a lot of work that still needs to be done, we sit here today more excited today than we've ever been about the prospects of the business and even more excited than we were on November one when we announced the closing of the transaction.

I'd be remiss if I didn't acknowledge the tremendous effort and adaptability and resilience of each of our team members that's been involved in this process. Everything that we've accomplished, every milestone, every client win is made possible as a result of your hard work, your commitment, your dedication to the team and to the clients. As I mentioned, I've never been more excited for the future of the business, and I'm incredibly proud of all that you've accomplished to date and I'm excited to be on this journey with you in the future. With that, I'll conclude the call and thank you for joining us today.

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