

## **Insperity, Inc. Third Quarter 2024**

### **Introduction**

#### **Doug Sharp**

Thank you. We appreciate you joining us.

Let me begin by outlining our plan for this morning's call. First, I'm going to discuss the details behind our third quarter 2024 financial results. Paul will then comment on our recent accomplishments, including an update on the implementation of our Workday strategic partnership solution, and on our outlook for the remainder of the year. Then, Jim Allison, who is succeeding me as the Chief Financial Officer upon my retirement, will return to provide our financial guidance for the fourth quarter and an update to the full year guidance. We will then end the call with a Question & Answer session.

Before we begin, I would like to remind you that Mr. Sarvadi, Mr. Allison or I may make forward-looking statements during today's call which are subject to risks, uncertainties, and assumptions. In addition, some of our discussion may include non-GAAP financial measures. For a more detailed discussion of (1) the risks and uncertainties that could cause actual results to differ materially from any forward-looking statements and (2) reconciliations of non-GAAP financial measures, please see the Company's public filings, including the Form 8-K filed today, which are available on our website.

Now, before I discuss the third quarter results, I want to express my gratitude for the opportunity to serve as the CFO of Insperity over the past 25 years. As we announced a couple of months ago, I will be retiring as CFO on November 15<sup>th</sup>, and Jim Allison, the current Executive VP of Comprehensive Benefits Solutions and Chief Profitability Officer will be my successor. I'm grateful to have played a role in the significant growth of the company over the years and helping the company achieve its mission of providing premium HR services and products to the small and mid-sized business community. I'm retiring knowing Insperity is in good hands with its current leadership team, including Jim, who brings significant experience in the company's operations and finances to the CFO role.

### **Third Quarter 2024 Results**

So, now let's discuss our solid third quarter results in which we reported adjusted EPS of \$0.39 and Adjusted EBITDA of \$39 million.

As for our growth metric, the average number of paid worksite employees of just over 309,000 was at the midpoint of our forecasted range. As expected, the 2% decline from Q3 of 2023 was impacted by the continuing softness in hiring by our client base and the loss of several midmarket accounts at the beginning of the year. Client hiring continued to be weak during Q3, as slight net gains in the first two months of the quarter were offset by a net decline in the third month. We believe the current macroenvironment continues

to weigh on our clients and prospects and contributed to slightly lower worksite employees paid from new sales. However, this was offset by strong client retention of 99% for the quarter.

An 11% decrease in gross profit from Q3 2023, on the 2% decrease in paid worksite employees, included a difficult comparison to the prior year's quarter, which was positively impacted by favorable health care claims development. Our Q3 2024 benefit cost trend was slightly above the high end of our forecasted range, but below our initial budget. And when combined with our overall pricing strategy, we believe we have effectively managed to our long-term goal of matching price and cost. In a few minutes, Jim will provide more color in this area, including our expectations over the remainder of 2024.

Q3 operating expenses were managed below plan, with savings in various G&A costs. Our year-to-date operating expenses now include approximately \$40 million associated with our Workday strategic partnership.

The third quarter of 2024's effective tax rate was positively impacted by research and development credits which contributed \$0.02 per share in earnings above our Q3 2024 forecast. We continue to forecast a full year 2024 effective income tax rate of 28%.

### **Cash Flow, Liquidity and Capital Allocation**

During the quarter, we continued to provide returns to our shareholders through our regular dividend program and the repurchase of our shares. We paid out \$23 million in cash dividends and repurchased 167,000 shares of stock at a cost of \$15 million in Q3. We ended the quarter with \$212 million of adjusted cash, an increase of about \$40 million over the December 31, 2023, balance. And, we had \$280 million available under our credit facility.

Now, at this time, I'd like to turn the call over to Paul.

### **Paul Sarvadi**

Thank you, Doug and thank you all for joining our call. Today I will begin with remarks on our third quarter financial results. I will follow with commentary on our plans to take advantage of our market opportunity in Q4 to move toward growth acceleration in 2025. I will finish with a discussion of sales and service initiatives we expect to implement over the course of the next year to drive long-term growth and profitability including AI and our Workday strategic partnership.

In Q3, we weathered the continued heightened uncertainty in the small and medium size business marketplace with solid financial performance in adjusted EBITDA and EPS.

We achieved our worksite employee average target for the quarter with good client retention, however worksite employees from net hiring versus layoffs was below expectations and even slightly negative for the full quarter.

This factor included a net gain in the first two months followed by a greater than expected reduction in September beyond what is typical from just summer help going away. We believe this reflects continued stress in the small business marketplace and possibly some pre-election hesitancy.

This pressure continued to be evident from our real time internal data beyond the nominal hiring activity, including low levels of overtime pay, and commissions paid to the sales personnel at client companies.

Despite these difficult conditions our booked sales were up 8% over the same period last year on a 2% increase in the business performance advisor sales team. In addition, pricing for our HR services was up 2% reflecting continued adherence to our long-term pricing plan even in a competitive environment.

Our pricing policy discipline also continued in our direct cost allocations including payroll taxes, workers compensation and employee benefits. This is our standard mode of operation and is important to highlight in this setting.

For example, this quarter our benefit claim cost was slightly higher than expected after a first half of the year with slightly favorable costs in this area. Our pricing allocation policy is not driven by these short-term variances, but rather by our conservative view of long-term trends.

Our pricing policy has continued our focus on trends that have been higher in the marketplace post COVID. This approach to match price and cost over the long-term allows us to provide our small business clients with what we believe is a more stable employment costs structure than other firms, providing us with a significant competitive advantage.

We are tweaking our guidance for the fourth quarter as you will hear from Jim in a few minutes to factor in the slight increase in health claim activity and the lower paid worksite employees, primarily from the lower net hiring in the client base.

For the balance of the year, we believe we are well positioned to return to growth acceleration in 2025 with a successful fall selling and retention campaign. This would be achieved by reaching a starting point in paid worksite employees in Q1 that is even with the average worksite employees we expect to pay in Q4.

Our fall selling and retention campaign is well underway, and we have several reasons to be encouraged. We have over 700 trained Business Performance Advisors in the field, a well-designed pricing and incentive strategy for each target market segment, a robust marketing campaign, and a strong mid-market pipeline.

We also have reason to believe there may be post-election relief of the hesitation and uncertainty in our target market. The election is over soon and both parties have highlighted support of the small to medium size business community.

Throughout our history we have seen some level of rebound from periods of uncertainty. We have seen companies in our target market of the best small and mid-size businesses in the country typically have a growth mind set and can't be held back for long.

As we focus on 2025, we believe we have an exceptional opportunity for growth acceleration as we also lay the groundwork for greater effectiveness and efficiency in both sales and service.

We anticipate implementing a role-based approach to optimize our sales organization with our offerings including our longstanding core PEO to the small business marketplace, our traditional employment business, and our significant mid-market opportunity.

We also expect to focus on improving effectiveness and efficiency on the service side of the business. This is made possible by our dramatic progress leveraging our own vast HR content, knowledge, and data through AI after so many years delivering the most comprehensive HR service in the marketplace.

Our AI strategy is centered on creating efficiencies, leveraging our deep, embedded HR expertise and enhancing, not replacing, the best-in-class service that Insperity is known for.

Our technology investments in recent years have focused on modernizing our data platform and elevating our capabilities in data strategy, governance, engineering, and analytics. These initiatives laid the groundwork for our efforts to capitalize on AI investments.

As examples, the implementation of Salesforce as our CRM and the creation of a modern data "hub" enable us to scale and be more nimble with business priorities like powering the marketing funnel and developing our internal AI tool.

We can also quickly ingest and transform new data sources as well as our own vast body of HR thought leadership content and knowledge. By leveraging enterprise AI solutions to process our proprietary information we are building and testing an internal tool that we believe will drive both efficiencies and deeper knowledge for our service and sales teams to further enhance the client experience.

Service areas like the contact center and payroll lend themselves naturally to AI support. We believe, use of AI will increase the speed and proficiency of our service teams.

As we design and test our AI solution, we are measuring the benefits in these areas and believe that it will help us with operational capacity management and optimization.

Longer term, we are targeting a client-facing version of our tool that would allow clients to get answers to common questions more easily.

We are also expanding our use of machine learning and AI to drive predictive insights that we believe can directly impact growth and retention.

Significant progress has also been made advancing our strategic partnership with Workday. I have spoken previously about the four defined pillars of work including our Insperity corporate tenant, our exclusive client tenant, our deployment and enablement services, and our joint go-to market plan. I would like to provide a brief update on the executions of each of those.

As a reminder, through this strategic partnership, Workday and Insperity are committed to jointly developing, marketing, selling, and supporting the preeminent solution for targeted small and medium-sized businesses that combines Workday's HR technology with Insperity's HR services.

We expect to offer this unique PEO solution to the target market using Workday technology for less upfront capital cost, ongoing expense, complexity, and implementation time than currently available to those businesses.

Our go to market plan for this strategic partnership is centered on co-selling, co-branding and co-marketing to the target market of companies with fewer than 3,500 employees.

We have established an incentive program in concert with Workday to increase opportunities for sales. We are currently focused on the integration of this go to market plan into the 2025 business plans for both firms.

We are progressing well in our co-branding and co-marketing efforts as both Workday and Insperity's marketing teams are engaged and building out a mutual approach to generate awareness, excitement, and interest for the new joint solution.

We plan to deploy the Workday platform for Insperity's corporate use first to better understand the implementation process and how to configure and integrate the systems we will use across both tenants. We've made excellent progress and we believe we are now on track to deploy this solution in the first half of 2025.

Our strategy to deploy the Workday solution for our own corporate use before taking our new joint solution to the market is proving out. Many of the nuances of integration and configuration that are part of the implementation are directly applicable to the development of the joint solution.

We are also progressing well on the development of the joint solution client tenant. We have an agreed upon development plan well underway with Workday that we believe would make the technology platform fit our PEO business model.

We continue to refine the definition and differentiation of the product offering. We remain focused on delivering a comprehensive HR & technology solution with speed to value and total cost of ownership as key drivers, as well as the pricing methodology that will apply to the new joint solution.

We are also well underway establishing our deployment and enablement organization. This is not new to us since we already deploy and enable new clients on to our own Premier HR technology platform in our current PEO offering and on to another HCM platform for our traditional employment clients.

Throughout this year, our service operations group has been completing advanced training and certifications for specific roles, while establishing our playbooks for customer support for the new joint solution. They have had the advantage of being able to use the corporate tenant deployment to provide the basis for much of this effort. These playbooks will include processes similar to the approach used in our current fast deployment on to our current system.

We're also well along the path of identifying an initial group of clients that will be migrating to the new platform ahead of launching the joint solution to new clients.

In summary, we are focused on a successful fall selling and retention season to achieve a solid starting point in 2025. We also see an opportunity for growth acceleration next year with sales and service improvements as we leverage our data infrastructure with AI and our Workday strategic partnership.

Before I pass the call on to Jim for our guidance discussion, I would like to publicly thank Doug for his outstanding performance in his key role here at Insperity for so many years. Doug has had an excellent career demonstrating dedication, commitment, and making a significant contribution to the success of Insperity.

I am also very excited to execute an effective succession plan having Jim Allison as our new CFO. Jim is uniquely qualified and experienced to immediately take over this role. We look forward to the opportunity for you to meet and work with Jim going forward.

At this point I would like to pass the call to Jim.

**Jim Allison**

Thanks, Paul.

### **Fourth Quarter and Updated Full Year 2023 Guidance**

Our outlook for full year 2024 earnings remains within the range of our prior guidance, albeit at the lower end of that range.

As Doug and Paul have mentioned, the environment for WSEE growth continues to be challenging due to the economic climate and labor market in our targeted customer segments. We are cautiously optimistic that recent and anticipated interest rate declines,

along with the completion of the current election cycle, could provide improvement over time, but we have not incorporated a change in the short-term. Given these factors, combined with the starting point going into the fourth quarter of 2024, we have adjusted our full-year outlook to the lower end of our previous guidance and now expect average paid worksite employees in a range of 307,400 to 308,100, which is a decline of 1.3% to 1.5% compared to 2023.

On a YTD basis, our pricing and benefit costs have been slightly favorable when compared to our initial budget. Our benefits costs in Q3 returned closer to our original budget due to a slight increase in utilization, and we have assumed a similar level in our Q4 forecast. We expect that our full-year benefits cost trend will remain near the low end of our initial 2024 expectations of 4.5% to 6%.

We expected somewhat elevated health care cost trends for both 2024 and 2025, and we did not adjust our pricing targets based on the favorability we experienced in the first half of the year. As a result, we believe that our pricing remains in a solid position at this point. We continue to closely monitor health care and other direct cost trends, along with the competitive landscape, and if necessary, we would adjust our pricing targets next year consistent with our long-term pricing strategy.

Operating expense management remains a key focus due to the lower worksite employees. We forecasted and achieved savings in Q3, and we have refined our plan for Q4. That said, we continue to focus efforts and planned spending on the implementation of the Workday strategic partnership, and we expect total spend on this initiative of around \$60 million for the full year, as originally estimated.

Based on these factors, we are now forecasting full year 2024 Adjusted EPS in a range of \$3.42 to \$3.66, within the range of our previous guidance of \$3.33 to \$3.88. We are now forecasting Adjusted EBITDA in a range of \$262 million to \$274 million.

As for Q4, we are forecasting paid worksite employees down from 1% to 2% compared to Q4 of 2023. For Q4 earnings, we are forecasting Adjusted EBITDA in a range of \$15 million to \$27 million and Adjusted EPS from \$(0.10) to \$0.12. Earnings comparisons to Q4 of 2023 will be significantly impacted primarily by the planned investments in the Workday strategic partnership in 2024.