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DHI Group, Inc. (NYSE:DHX) Q3 2024 Earnings Conference Call November 12, 2024 5:00 PM ET

Company Participants

Todd Kehrli - MKR Investor Relations
Art Zeile - Chief Executive Officer
Raime Leeby - Chief Financial Officer

Conference Call Participants

Zach Cummins - B. Riley
Kevin Liu - K. Liu & Company
Max Michaelis - Lake Street

Operator

Good day, and welcome to the DHI Group, Inc. Third Quarter 2024 Financial Results Conference Call. All participants' will be in a listen-only mode. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Todd Kehrli of MKR Investor Relations. Please go ahead.

Todd Kehrli

Thank you, operator. Good afternoon, and welcome to DHI Group's 2024 third quarter earnings conference call. With me on today's call are DHI's CEO, Art Zeile; and CFO, Raime Leeby.

Before I turn the call over to Art, I'd like to cover a few quick items. This afternoon, DHI issued a press release announcing its 2024 third quarter financial results. This release is available on the company's website at dhigroupinc.com. This call is being broadcast live over the Internet for all interested parties, and the webcast will be archived on the Investor Relations page of the company's website.

I want to remind everyone that during today's call, management will make forward-looking statements that involve risks and uncertainties. Please note that except for the historical information, statements on today's call may constitute forward-looking statements within the meaning of the Federal Securities Laws. These forward-looking statements reflect DHI management's current views, concerning future events and financial performance and are subject to risks and uncertainties, and actual results may differ materially from the outcomes contained in any forward-looking statements.

Factors that could cause these forward-looking statements to differ from actual results include the risks and uncertainties discussed in the company's periodic reports on Form 10-K and 10-Q and the filings with the Securities and Exchange Commission. DHI undertakes no obligation to update or revise any forward-looking statements.

Lastly, during today's call, management will be referring to specific financial measures, including adjusted EBITDA, adjusted EBITDA margin, and non-GAAP earnings per share, that are not prepared in accordance with U.S. GAAP. Information about and reconciliation of these non-GAAP measures to the most directly comparable GAAP measures are available in our earnings release, a copy of which you can find on our website at dhigroupinc.com in the Investor Relations section.

I'll now turn the conference call over to Art Zeile, CEO of DHI Group.

Art Zeile

Thank you, Todd. Good afternoon, everyone, and welcome to our 2024 third quarter earnings conference call. We appreciate your time today as we discuss our financial performance for the quarter and provide an update on our outlook.

To begin, let's address the current state of the tech labor market, which serves as a key growth indicator for our business. We're starting to see encouraging trends that point to a positive trajectory for tech labor demand. One standout signal is the steady increase in new tech job postings.

According to CompTIA, over 610,000 new tech job postings were created in third quarter of 2024, marking a 3% increase year-over-year. Our first positive year-over-year growth in this key metric in over a year. In September, there were 225,000 new tech job postings, marking a 22% increase from the previous year. And the recently released October data shows the addition of 223,000 new tech jobs, representing a 34% year-over-year increase. These numbers are encouraging and I believe highlight that a broader recovery is starting to take place across our industry.

Other positive signs are emerging as well, such as the decrease in the tech unemployment rate, which currently stands at 2.6% at the end of October. These positive signals align with the findings from staffing industry analysts, which recently released its fall forecast predicting 5% growth for the tech staffing sector next year. This forecast is based on extensive interviews with staffing and recruiting firms and reflects a collective confidence in improved performance for 2025.

Global professional services firm, RGP also recently released research highlighting that U.S. companies' workforce strategy decisions are being influenced by labor market challenges, rising digital transformation spend, and the Fed's recent interest rate cut. Over half, 51% of financial decision makers surveyed expect their company to increase investments by the end of 2024, while 81% anticipate investment growth by mid-2025. These findings are based on a survey of over 200 senior executives influencing finance decisions at organizations with $500 million or more in annual revenue.

Another strong demand signal comes from Lightcast, which tracks new tech recruiter job postings. From early this year to September, postings surged over a 100%, albeit from a small base. Hiring more tech recruiters suggests a future uptick in the demand for tech professionals. As businesses ramp up their investment in technology initiatives such as AI, platforms like ClearanceJobs and Dice will be essential tools for employers seeking top tech talent from our database of 8.8 million technology professionals.

We continue to hear success stories from our clients, like DISH Network, whose talent acquisition supervisor said she considers Dice a secret gold mine of candidates that are not on other sourcing platforms, or Bank of New York Mellon's Global Head of Sourcing, who has said that Dice continues to be a leading solution for us to get in front of the right talent. As a two-sided marketplace, the candidate experience is equally important to our success. In a recent survey, a technical program manager engaged on the Dice platform told us, I have received more calls from recruiters on positions aligned with my skill set than any other online job search site. Reinforcing trust and value for candidates continues to be a strategic priority for both of our brands.

Our ability to efficiently match employers with top candidates using our proprietary skills mapping algorithm is a key differentiator. And in July, Forbes Magazine named Dice the top website for IT job seekers. We were also featured last month in Newsweek Magazine, where we were once again named one of the Most Loved Workplaces this year, coming in at Number 49 in the overall standings.

Now let me dig a bit more into our performance during the third quarter and what we see ahead for the remainder of 2024. In the third quarter, total revenue declined 6% year-over-year. ClearanceJobs saw an increase of 6%, while Dice saw a decrease of 12%. Excluding transactional revenue, our total recurring revenue declined 4% year-over-year.

Looking at our bookings performance, our total bookings were down 7% year-over-year in the third quarter, matching what we saw in the second quarter. ClearanceJobs bookings for the third quarter increased 4% year-over-year, which is still below its historical trend line. ClearanceJobs continued its year-over-year revenue growth in the third quarter, though at a slightly slower pace than the last quarter due to delays in government contract awards. There continues to be growing pressure for increased military funding, which we believe will ultimately result in more government projects. This, in turn, will fuel demand for tech professionals with clearances where CJ is the dominant marketplace with over 1.8 million cleared tech professionals.

During the quarter, CJ secured several new customers, including Equinix, Annapolis Micro Systems and Accrete.AI. With over 10,000 employers of cleared tech professionals and over 100 government agencies also in need of cleared tech professionals, CJ has a significant growth opportunity ahead of it.

Looking at Dice's business performance, its revenue was lower year-over-year due to lower new business bookings and renewals over the past several quarters, as well as lower transactional revenue. Dice bookings for the third quarter declined 15% year-over-year due to constrained budget -- continued budget constraints within both employers and staffing firms.

Nevertheless, Dice secured several notable customers this quarter, including Blue Origin, Perdue Farms and D.R. Horton. On the new business front, we continue to focus on recession-resistant sectors like aerospace, business consulting, healthcare, financial services and education. In terms of renewals, CJ and Dice revenue renewal rates were 91% and 74%, respectively. And our retention rates for CJ and Dice were 109% and 96%, respectively.

During the quarter, we saw a couple of larger staffing customers renew at lower usage levels given the weak demand environment, which impacted our Dice renewal rate. However, our revenue renewal rate for our commercial accounts actually improved to 85%. As we approach the end of the year, we are actively engaging with clients to gather insights on their 2025 hiring budgets with approximately 55% of all subscription contract revenue up for renewal in the fourth and first quarter.

On the bottom line, during the third quarter, we delivered a 24% adjusted EBITDA margin, down slightly from 25% a year ago. And our operating cash flow was $5.5 million compared to $5.6 million last year. Year-to-date, we've reduced total operating costs by 8% year-over-year and continue to optimize our technology and marketing spend.

Now, let me quickly touch on what we're doing to drive increased adoption of our 2 brands. For ClearanceJobs, we are currently working on a product called [Verify] (ph) that charges a fee to individual members to ascertain their government security status. For Dice, our all jobs initiative continues to drive job posting growth, candidate engagement and applications. In the third quarter, Dice averaged 1.7 million monthly job applications, up 70% year-over-year, further solidifying Dice as the leading tech career marketplace. Providing our clients with more actively engaged candidates is one of our primary value propositions.

We are also expanding our account-based marketing efforts for Dice with a new tool that we launched this quarter to help analyze visitors to the site and identify high potential leads. This will allow us to both further fine-tune our marketing spend and expand lead production. Our comprehensive subscription packages, which include unlimited job postings, company pages and job boosts, continue to gain traction. In the third quarter, 99% of all new business deals were signed in these packages and 11% of renewed customer accounts converted to the comprehensive subscription package with an average retention rate of 113%.

Looking ahead, while tech job postings are beginning to improve, we continue to expect a slow and steady recovery with bookings likely not to return to growth until next year. For the fourth quarter, we project a year-over-year decline in bookings of 8% to 10% and a decline in revenue of 7% to 8%. We anticipate that lower interest rates and increased AI-related hiring will provide a tailwind for tech hiring demand next year, in line with SIA forecasts. Our focus remains on enhancing our products and our go-to-market strategy to be well positioned for this expected increase in demand. We are also focused on delivering strong profits for our shareholders and continue to target a 24% adjusted EBITDA margin for the full-year.

Finally, I'd like to comment on our announcement this afternoon that Raime Leeby, our Chief Financial Officer, will be moving on to an exciting new opportunity with a company that she has previously worked with. Raime will be leaving at the end of this week. And while it's sad for us to see her go, we are happy for her and the well-deserved role she's stepping into. Raime has been the most exceptional CFO I've had the pleasure of working with, and she leaves behind a finance and accounting team that she has significantly enhanced in terms of process, accountability and culture over the past year.

Following her departure, our current Vice President of Finance and Controller, Greg Schippers, will step in as Interim CFO. Greg brings over 10-years of experience with DHI Group and has a demonstrated strong finance expertise in areas essential for a CFO, including strategic financial planning, rigorous financial oversight and sound decision-making. He has shown exceptional leadership in managing budgets, optimizing operational efficiencies and upholding the highest standards of financial integrity. Greg's analytical acumen, attention to detail and commitment to transparency will make him an excellent fit for this role. I am confident in his skills and expertise as he takes on this new role. Raime, we will certainly miss you, but are thrilled for this next chapter in your career.

With that, I'll hand the call over to Raime to walk you through our financials, and then we'll open up the floor for questions. Raime?

Raime Leeby

Thank you, Art, and good afternoon, everyone. Jumping right in, let me take you through our financial results for the quarter. We reported total revenue of $35.3 million, which was down 6% on a year-over-year basis and down 2% from the prior quarter. Total bookings for the quarter were $28.9 million, down 7% year-over-year. As Art mentioned, our total recurring revenue was down 4% in the third quarter.

ClearanceJobs' revenue was $13.4 million, up 6% year-over-year and up 1% sequentially. Bookings for CJ were $12.6 million, up 4% year-over-year. We ended the third quarter with 1,982 CJ recruitment package customers, which was down 4% on a year-over-year basis and 1% sequentially.

This slight reduction is attributable to churn with smaller customers, whereas the number of CJ accounts spending greater than $15,000 annual recurring revenue has increased and is up 40% versus prior year Our average annual revenue per CJ recruitment package customer was up 16% year-over-year and up 2% sequentially to $24,762.

During the quarter, over 90% of CJ revenue is recurring and comes from annual or multiyear contracts. For the quarter, CJ's revenue renewal rate was 91% and CJ's retention rate was strong at 109%. The outstanding retention rate demonstrates the continued value CJ delivers in the recruitment of cleared professionals.

Dice revenue was $21.9 million, which was down 12% year-over-year and 3% sequentially. Dice bookings were $16.3 million, down 15% year-over-year. We ended the quarter with 4,868 Dice recruitment package customers, which is down 3% from last quarter and down 15% year-over-year. This reduction is attributable to churn with smaller customers spending less than $10,000 per year. Our average annual revenue per Dice recruitment package customer was flat sequentially and up 5% year-over-year to $16,330.

During the quarter, over 90% of Dice revenue was recurring and came from annual or multiyear contracts. For the quarter, our Dice revenue renewal rate was 74%, down from 78% a year ago, and our Dice retention rate was 96%, down from 99% in the year ago quarter.

Turning to operating expenses. Third quarter operating expenses were down 2% to $34.7 million, when compared to $35.2 million in the year ago quarter, reflecting cost savings associated with the restructuring initiatives in 2023 and 2024, partially offset by the restructuring charge in the current quarter. We continue to focus on our operational efficiency. For the quarter, we had income tax expense of $95,000 and a loss before taxes of $105,000. Our tax rate for the quarter differed from the statutory rate due to tax expense on the vesting of share-based compensation awards.

We reported a net loss of $200,000 or $0.00 per diluted share for the third quarter. For the prior year quarter, we reported net income of $1 million or $0.02 per diluted share. Our non-GAAP earnings per share was $0.05 per diluted share for the current quarter compared to $0.06 per diluted share a year ago.

Diluted shares outstanding for the quarter were $44.9 million compared to $44.3 million in the prior year quarter. Adjusted EBITDA for the third quarter decreased 8% to $8.6 million, a margin of 24% compared to $9.4 million or a margin of 25% in the same quarter last year.

Operating cash flow for the third quarter was $5.5 million, compared to $5.6 million in the prior year period. Our capitalized development costs in the third quarter were $3.1 million, compared to $4 million in the third quarter of last year, a decline of $900,000.

Capitalized development costs for the company are primarily related to costs incurred from building new products and features on our platforms. We expect our CapEx for the year to be between $14 million and $15 million versus $20.3 million in the prior year.

From a liquidity perspective, at the end of the quarter, we had $2.1 million in cash and total debt of $32 million under our $100 million revolver. Total debt decreased $3 million during the quarter and $8 million year-over-year. We finished the quarter under 1 times leverage.

Deferred revenue at the end of the quarter was $46.9 million, down 4% from the third quarter of last year. Our total committed contract backlog at the end of the quarter was $103.5 million, which was down 5% from the end of the third quarter last year.

Roughly 80% of the backlog is considered short-term and will be recognized as revenue in the next 12 months. During the quarter, we did not purchase shares under our share buyback program and shares purchased related to the vesting of share-based awards were minimal.

Moving on to guidance. Many employers continue to be very budget conscious during this uncertain economic environment. As a result, we do not expect our total bookings to return to growth until next year. We expect our fourth quarter bookings to be down 8% to 10% year-over-year, and we expect our revenue for the fourth quarter to be down 7% to 8% year-over-year.

From a profitability perspective, we continue to target an adjusted EBITDA margin of 24% for the full year. We remain focused on driving long-term sustainable revenue growth and are well positioned from a customer acquisition perspective once tech hiring returns to more normal levels.

To wrap up, while the current economic environment is still impacting our growth, we expect companies across all industries will increase their investment in technology initiatives as companies look to implement Generative AI into their business models, which we believe will drive increased demand for our products and services as demand for technologists will follow. In the meantime, we are focused on improving our industry-leading offerings and our go-to-market execution so we are ready to capitalize on the acceleration of tech hiring.

And with that, let me turn the call back to Art.

Art Zeile

Thank you, Raime. I'd like to thank all of our employees again for their hard work this past quarter. It is a pleasure to be part of such a great team.

With that, we're happy to answer your questions.

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. [Operator Instructions] The first question today comes from Zach Cummins with B. Riley. Please go ahead.

Zach Cummins

Hi. Good afternoon, Art and Raime. Thanks for taking my questions. And Raime, best of luck in your next opportunity. It was a pleasure working with you. Just starting off, in terms of just renewals with some of your major staffing clients, can you talk about the dynamic with kind of the, say, downtick in the rate that you got in the renewed contract? And do you view that as any sort of risk as you go through this key renewal season over the next couple of quarters?

Art Zeile

Well, I think there's always a risk, Zach, and that is an excellent question. I am comforted by the fact that the majority of our churn is still in that category of small business staffing firms. But, however, if a couple, even larger staffing firms decide to diminish their usage of our platform, it does materially change the revenue renewal rate figure.

I do think that over the last year, you've seen the revenue renewal on count improve sequentially, kind of consistent with that idea that we've been shaking the tree for so long of these smaller staffing firms that at some point we've shaken them all off. But I still think that it's valid to say we're concerned about the renewals, especially as we go into Q4 and Q1. The large majority of our renewal base or book, you can call it, actually takes place in December and January because most of these larger customers have always asked for their contract to line up with the calendar year.

So again, we're concerned about it, but it feels like we're kind of just bumping along the bottom until there's a strong, steady increase in technology demand that everybody can kind of fundamentally take advantage of. We do believe the SIA forecast is a positive signal for us, but we're not necessarily counting on it in terms of any kind of guidance or forecast. But Raime, I'll also ask if you have any additional thoughts on that. I think Raime is on mute, but we'll let her reset.

Raime Leeby

Thanks, Art. I don't have anything to add, but Zach, wanted to say likewise, it's been a pleasure working together.

Zach Cummins

Awesome. Well, thanks Raime. And just my follow-up question, Art, is, really geared towards your confidence in returning to bookings growth at some point next year. Obviously, some incrementally positive signals with the overall environment and the staffing industry potentially returning to growth. So just curious of what's driving the confidence that we're getting back to kind of towards the bottom here and returning to growth on the bookings side next year?

Art Zeile

It's kind of interesting. We pointed out some data points that we feel fundamentally show that the trend is going in the right direction. I would also take a step back and say the bigger picture is that the tech industry fundamentally has grown at 3% to 4% per year, meaning the tech workforce itself pretty much for the last 25-years, with the exception of 2001, which was the dot-com implosion, 2008 which is the Great Recession and also 2020, which is COVID.

So for us to see this kind of a condition of kind of underperformance in the tech workforce is unusual. I think that we do need to see two things fundamentally change so that they drive our demand. The first is growth initiatives. And I think that there are going to be more growth initiatives. There's a lot of talk about growth initiatives. Growth initiatives definitely require people.

The other thing that propels our business is voluntary attrition. And over the last 1.5 years, most technology workers have been reluctant to move because they view the economy with suspicion. And so nevertheless, what we're picking up from a lot of tech recruiters, including some of our own inside of DHI Group, is that there is this almost damn ready to break kind of concept that is ready to play out. So I feel like there is a lot of reasons for optimism for 2025.

Zach Cummins

Understood. Well, thanks for taking my questions and best of luck with the rest of the quarter.

Art Zeile

Thanks so much, Zach. We really appreciate it.

Operator

The next question comes from Kevin Liu with K. Liu & Company. Please go ahead.

Kevin Liu

Hi, good afternoon, guys. Just a quick question on kind of Q4 here and kind of the bookings expectations. Maybe if you could give us some commentary on the early trends you've seen in terms of renewal activity this quarter outside of staffing, how are renewals going with your typical enterprise customer base? And how do you expect that to kind of flow into the new year since Q1 is also a pretty big renewal quarter?

Raime Leeby

Hi, Kevin. This is Raime. Yes, looking forward to Q4, we expect Q4 to look very similar to what we saw in Q3 for both Dice and CJ. We are seeing, as Art mentioned, some green shoots, but we were conservative, I would say, with our Q4 outlook. I think now that the Fed is signaling and has made 2 rate reductions, and we're also seeing the election in the rear view mirror, it remains to be seen when we're going to start seeing the bookings activity uptick and what we'll see. But the way that we've projected Q4 is fairly in line with Q3.

Kevin Liu

I appreciate the color there. And as we think to the new year and kind of the prospects for renewed bookings growth here, how does that impact how you want to manage margins as we go into '25? Any sense for your willingness to invest ahead of the curve to drive that renewed growth? Or do you need to see some kind of changed trend on the booking side before we start to up the marketing expense again?

Art Zeile

Yes. I would say, from my perspective, we're -- we intend to be cautious. And we would need to see that actual bookings demand take place before we made significant incremental investments in, for example, sales resources. So I think right now, we're poised to take advantage of that upswing with the capacity that we have and the sales team itself. There is the opportunity also to essentially spend more on marketing qualified leads. Again, we would want to see evidence that, that trend is, in fact, in place that we can really count on so that we can maintain our margins.

Kevin Liu

Great. I really appreciate you taking the questions and Raime good luck in the new role.

Raime Leeby

Thanks so much, Kevin.

Operator

The next question comes from Max Michaelis with Lake Street. Please go ahead.

Max Michaelis

Hey, guys. Thanks for taking my question. I just want to go back to the Q4 bookings guide here. If we look at that, and I think you mentioned it's going to be similar to Q3. But in terms of segment breakdown, I mean, does this -- the way I'm interpreting it, is this like expecting a further degradation in the Dice segment when we look at this 8% to 10% contraction year-over-year for bookings? Or am I thinking about that wrong?

Raime Leeby

Yes. I would say, again, it's very similar. So we break our business into thinking about renewal rates and then thinking about new business. And our expectations for Q4 are similar to what we saw in Q3. For Dice specifically, we do have a handful of large multiyear customers who initiated their contracts in the 2021-2022 time frame, and they're renewing at slightly lower levels as they've evaluated their need with this tech hiring environment.

So it's not churn necessarily. It is slight contraction. And this is a healthy reset, and we expect positive growth as the tech hiring continues to grow in the next year, and top-ups. As you recall, we've historically talked about top-ups in previous strong environments, and we anticipate that happening with those accounts over time.

Max Michaelis

Okay and we look out into 2025 in this -- and your comments on how we expect bookings growth. I mean, is that like a second half '25? Like ClearanceJobs continues to stay positive, but then Dice starts to creep up towards that positive, maybe breakeven, 1% growth in the second half of 2025? Is that how we should think about it? Or can you kind of break that down a little bit for me?

Raime Leeby

Yes. We will, in upcoming quarters, provide more clear guidance on 2025. But I think that the way you're thinking about it is a reasonable perspective in that we expect continued growth in CJ, and we expect incremental improvements with Dice.

Max Michaelis

And then I guess just kind of more of a 30,000-foot question here. I mean, just kind of given the bookings trend and where we're going into 2025, I mean, is there anything out in the market that we can go after maybe in terms of buying, maybe on the M&A side and maybe vertical specific or maybe platform? Is there anything out in the market that you guys have been looking at as a potential M&A target? Or kind of what are your thoughts there?

Art Zeile

Sure. I mean I'd have to say that we really haven't thought about acquisitions for quite some time, thinking that we would fundamentally make sure that we are getting the maximum performance out of our current platforms, both CJ and Dice. I don't foresee any particular acquisition opportunity on the horizon that would take us away from that strategy, quite frankly. I do think that, ironically, a lot of the opportunities in the private markets are actually higher multiples and wouldn't necessarily make sense for us right now.

Max Michaelis

All righty. Thanks for taking my questions.

Art Zeile

Thank you very much, Max. Appreciate it.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Art Zeile for any closing remarks.

Art Zeile

Thank you, operator, and thank you, all, for joining us today. As always, if you have any questions about our company or would like to speak with the management team, please reach out to Todd Kehrli at MKR, and he will help arrange a meeting for us.

Thanks, everyone, for your interest in DHI Group, and have yourself a great day.

Operator

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

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