

Q2 2023 Earnings Call

Company Participants

- Jeffrey Eberwein, Chief Executive Officer, Director
- Matt Diamond, Chief Financial Officer

Other Participants

- Marc Riddick, Business and Consumer Services Analyst

Presentation

Operator

Good morning. Welcome to the Hudson Global Conference Call for the second quarter of 2023. Our call today will be led by Chief Executive Officer Jeff Eberwein and Chief Financial Officer Matt Diamond. Please be advised that the statements made during the presentation include forward-looking statements under applicable securities laws. Such forward-looking statements involve certain risks and uncertainties that may cause actual results to differ materially from those contained in the forward-looking statements. These risks are discussed in our Form 8-K filed today and in our other filings made with the Securities and Exchange Commission, including our annual report on Form 10-K.

The company disclaims any obligation to update any forward-looking statements. During the course of this conference call, references will be made to non-GAAP terms such as constant currency adjusted EBITDA and adjusted earnings per diluted share. Reconciliations for these measures are included in our earnings release and quarterly slides, both posted on our website, hudsonrpo.com. I encourage you to access our earnings materials at this time as they will serve as a helpful reference guide during our call. I will now turn the call over to Jeff Eberwein.

Jeffrey Eberwein {BIO 15257673 <GO>}

Thank you, operator. Welcome, everyone. We thank you for your interest in Hudson Global and for joining us today. I'll start by reviewing the second quarter 2023 highlights, and Matt Diamond, our CFO, will provide some additional details on our financial results. I will then give an update on current business conditions.

For the second quarter of 2023, we reported revenue of \$45 million, down 18% year-over-year in constant currency. Adjusted net revenue was \$23 million and decreased 15% year-over-year in constant currency. SG&A costs were \$20 million in the first quarter, down 5% versus the same period last year in constant currency.

We reported adjusted EBITDA of \$2.6 million, down 52% in constant currency versus a year ago. In addition, we reported net income of \$600,000 or \$0.18 per diluted share versus net income of \$3.1 million or \$0.98 per diluted share in the same period last year.

We reported adjusted net income per share of \$0.36 in Q1 -- sorry, Q2 2023 versus \$1.25 a year ago. I'll now turn the call over to Matt Diamond, our CFO, to review our financial results by region, as well as provide some additional financial details from the second quarter.

Matt Diamond {BIO 21083869 <GO>}

Thank you, Jeff. And good morning, everyone. Revenue and adjusted net revenue for our Americas business decreased 40% in constant currency. Breakeven adjusted EBITDA decreased versus last year's adjusted EBITDA of \$3.4 million. Revenue for our Asia Pacific business increased 1% year-over-year and adjusted net revenue grew 11% in constant currency.

Adjusted EBITDA of \$2.5 million decreased from adjusted EBITDA of \$2.6 million a year ago but increased 2% in constant currency. Revenue for our EMEA business declined 34% in constant currency, while adjusted net revenue increased 10% in constant currency. Adjusted EBITDA of \$1.1 million in the second quarter of 2023 increased from adjusted EBITDA of \$0.8 million a year ago.

Turning to some additional financial details from the second quarter. We ended Q2 with \$23 million in cash and restricted cash. Days sales outstanding was 51 days at June 2023, down from DSO of 53 days in March 2023. In connection with the acquisitions of Coit Group in the fourth quarter of 2020, Karani in the fourth quarter of 2021 and Hunt & Badge in the third quarter of 2022. Our balance sheet as of June 30, 2023, reflects \$4.9 million of goodwill and \$4.0 million of net amortizable intangible assets.

The company also paid off this \$1.3 million acquisition-related note in the second quarter. The company's working capital, excluding cash, increased significantly to \$12.5 million in the second quarter of 2023 versus from \$7.3 million at the end of 2022. The company generated \$2.6 million in cash flow from operations during the second quarter.

I'll now turn the call back over to Jeff to give some more perspective on our RPO business and to review current trends.

Jeffrey Eberwein {BIO 15257673 <GO>}

Thank you, Matt. In the second quarter of 2023, lower hiring activity, particularly in the technology sector led to declines in revenue, adjusted net revenue and adjusted EBITDA versus the prior year quarter. Activity and other sectors remained in line with our expectations and we continue to win new business in the second quarter of 2023.

Although the timing of recovery in the technology sector is difficult to predict, we're confident in our ability to manage the business in this environment and we remain well

positioned to respond to the needs of our clients going forward.

In the second quarter of 2023, the company repurchased \$600,000 worth of stock which completed the \$10 million common stock repurchase program. The company began buying under this program in 2015 and opportunistically supplemented with a tender offer in 2019 as well as privately negotiated transactions with certain significant shareholders in 2020.

Altogether, since 2015, the company repurchased 1 million shares at an average price of approximately \$16 per share. The company continues to view share repurchases as an attractive use of capital going forward as evidenced by our recent \$5 million share repurchase authorization.

Importantly, I want to thank all of our highly dedicated employees for their flexibility, hard work and dedication to our clients and business and the challenging conditions we've experienced in recent years. Operator, can you now please open the line for questions.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Marc Riddick with Sidoti.

Q - Marc Riddick {BIO 22212227 <GO>}

Good morning. So I was wondering if you could talk a little bit about maybe -- and certainly, it's pretty consistent with a lot of the peers of what folks are seeing out there.

I was wondering if you could talk a little bit about maybe what you're seeing as far as clients' activity, as far as the delays, if you're getting the sense of whether it's within particular types of projects or -- or is it -- is there anything that's sort of a little different than maybe it's been maybe three, six months ago? Or is it pretty similar to the actions that we saw earlier in the year?

A - Jeffrey Eberwein {BIO 15257673 <GO>}

Yes. I would say there's no real significant changes, either positive or negative versus a few months ago. The biggest observation we have is how -- the difference between sectors. So in the technology sector, our team would describe hiring conditions as a nuclear winter. It was about 20% of our total business last year, and now it's less than 5%, which just gives you a sense of the magnitude of the decline in hiring in the tech sector.

All the other sectors, I'd say the strongest sector is life sciences, but it really goes to sector by sector or even company by company. So like, for example, our biggest new client when this year is a European company that specializes in clean water and different hygiene and sanitation type of projects. They recently just made a really large acquisition in the U.S.

And so what we thought was going to be a decent sized win turned into a really, really big win after they made that significant acquisition, we're just getting ramped up with them and then another decent size win we had this year is in the gaming sector. So it's hard to draw big sweeping themes except for the nuclear winter and the tech sector hiring.

We've been able to find pockets where companies are growing and hiring and really value our services and need help navigating the environment. So I would say the most encouraging thing is that we've continued to win new business this year.

Q - Marc Riddick {BIO 22212227 <GO>}

Okay. I was wondering if you could talk a little bit about maybe what your thoughts are as far as the -- maybe the acquisition pipeline that you're seeing? Then maybe in a bigger picture sense, the thoughts around -- hopefully, as we get to recover from this activity at some point, how we might industry consolidation shake out going forward. But maybe just sort of maybe just some big picture thoughts around what we might see with those kind of opportunities?

A - Jeffrey Eberwein {BIO 15257673 <GO>}

Yes, that's a really good question, Marc. So for whatever reason, last year, we probably saw more targets kind of on the market. We were having more conversations than before. So I would say the high point for discussions was late 2021 and first half of 2022.

There are a decent number of discussions, a decent number of targets that we were looking at. There was just a big gap between our perspective on value and their perspective on value. Some of them did get sold. Most of them didn't. Then a few of them now have a lot more realistic expectations. A whole other category just hunkering down and waiting for a better day.

But the ones where they have lower expectations, maybe they had a failed sale process or it just took a few quarters for the slowdown in activity to sink in. Those are things that we remain in kind of active dialogue with. So we're always having discussions with somebody somewhere. So we just describe it as not as heated as it was in 2021 and 2022, but there's a few that could be interesting largely because they have more realistic expectations today than I did, say 18 months ago.

Q - Marc Riddick {BIO 22212227 <GO>}

No, that's really helpful. I appreciate the commentary there. I was wondering if you could talk a little bit about maybe what you're seeing as far as candidate availability. It's -- from the talent side of things, certainly, it seems as though there continues to be a challenge.

But I was wondering if you could -- are you getting a sense that there are -- maybe that varies by specialties and the like. But you could talk a little bit about what you're seeing there as far as -- are we seeing any changes there as far as how many candidates are out there or any pockets of potential green shoots from that point?

A - Jeffrey Eberwein {BIO 15257673 <GO>}

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Yes. That's a really good question. I would describe it at a high level as the labor market is still tight, but not as tight as it was. But then you get some significant differences depending on sector and depending on geography. So despite what I said about the technology sector, where there are a lot more -- I think candidates looking and there are jobs available.

Most companies that we talk to, whether they're in healthcare, financial services, consumer, they do have a lot of roles, a lot of IT roles they might not be in California, they might be in the middle of the country or somewhere internationally. Those have still been hard to fill. It's a very ubiquitous skill set.

Then within the technology sector itself, the green shoots that we see and even shutter to mention this phrase, but AI and cybersecurity. There are companies getting funded and typically once a company gets funded, they have progressive growth goals that they need to meet, which means they need to hire more tech specialist, software engineers, programmers, people like that. So that is the one area and maybe also IT services. Those are the areas where we see some hiring activity.

Q - Marc Riddick {BIO 22212227 <GO>}

I appreciate the color, and I'll resist the urge to pound on AI questions because that can certainly lead to a whole different area. But I do appreciate it. Thank you.

Operator

(Operator Instructions) That concludes today's question-and-answer session. I will now turn the call over to Jeff Eberwein for closing remarks.

A - Jeffrey Eberwein {BIO 15257673 <GO>}

Thank you, all again for joining us today and for your interest in Hudson Global. Feel free to contact us any time using the contact information found in our press release or on our Investor Relations website. We look forward to next quarter's update call.

Operator

Thank you for joining the Hudson Global second quarter conference call. Today's call has been recorded and will be available on the investors section of our website, hudsonrpo.com.

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