

08-Aug-2024

Hudson Global, Inc. (HSON)

Q2 2024 Earnings Call

CORPORATE PARTICIPANTS

Jeffrey Edward Eberwein

Executive Chairman & Chief Executive Officer, Hudson Global, Inc.

Jacob Zabkowicz

Global Chief Executive Officer-Hudson RPO Ltd., Hudson Global, Inc.

Matthew K. Diamond

Chief Financial Officer, Hudson Global, Inc.

OTHER PARTICIPANTS

Marc Riddick

Analyst, Sidoti & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Hudson Global Conference call for the second quarter of 2024.

Our call today will be led by Chief Executive Officer, Jeff Eberwein; Chief Financial Officer, Matt Diamond; and Global CEO of Hudson RPO Jake Zabkowicz.

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 to be filed today and in our other filings made with the Securities 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.

All participants will be in listen only mode. [Operator Instructions]

After today's presentation, there will be an opportunity to ask questions. [Operator Instructions]

Please note this event is being recorded. I will now turn the call over to Jeff Eberwein.

Jeffrey Edward Eberwein

Executive Chairman & Chief Executive Officer, Hudson Global, Inc.

Thank you, operator, and welcome, everyone.

We thank you for your interest in Hudson Global and for joining us today. I'll start by reviewing the second quarter 2024 results. Then Matt Diamond, our CFO, will provide some additional details on our financials. Lastly, Jake Zabkowicz, Global CEO of our Hudson RPO business will provide us with an update on our RPO business, including recent developments and milestones.

Our second quarter 2024 results were impacted by the continuation of lower-than-normal hiring volumes at many of our clients in the markets we serve. For the second quarter of 2024, we reported revenue of \$35.7 million, down 20% year-over-year in constant currency, while our adjusted net revenue was \$17.6 million, down 22% year-over-year in constant currency.

Our adjusted EBITDA for the second quarter was \$0.7 million versus adjusted EBITDA of \$2.6 million a year ago. In addition, we reported a net loss of \$0.4 million or \$0.15 per diluted share versus net income of \$0.6 million or \$0.18 per diluted share in the same period of last year. Q2 2024 adjusted net income per diluted share was \$0.04 compared to net income per diluted share of \$0.36 in the second quarter of 2023.

Now I'll turn the call over to Matt Diamond to review our financial results by region, as well as some additional financial details from the second quarter.

Matthew K. Diamond

Chief Financial Officer, Hudson Global, Inc.

Thank you, Jeff, and good morning, everyone. Revenue for our Americas business decreased 19% and adjusted net revenue decreased 24% year-over-year in constant currency. We reported adjusted EBITDA of \$0.6 million for the quarter, versus last year's breakeven adjusted EBITDA. Revenue and adjusted net revenue for our Asia-Pacific business both decreased 19% year-over-year in constant currency.

In Q2 2024, we reported adjusted EBITDA of \$0.8 million compared to adjusted EBITDA of \$2.5 million a year ago. Revenue for our EMEA business decreased 24% versus the prior-year quarter in constant currency and adjusted net revenue decreased 23%. Our Q2 2024 adjusted EBITDA was \$0.3 million compared to adjusted EBITDA of \$1.1 million in the second quarter of 2023.

Turning to some additional financial details in the second quarter, we ended the second quarter with \$15.3 million in cash, including \$0.6 million of restricted cash. The company used \$4.3 million in cash flow from operations during the second quarter of 2024, compared to \$2.6 million of cash generated from operations in the second quarter of 2023.

Day sales outstanding was 59 days at June 30, 2024, compared to 52 days at March 31, 2024. In connection with our acquisition activity in recent years, our balance sheet as of March 31, 2024 reflects \$5.6 million of goodwill and \$3.0 million of net amortizable intangible assets. The company's working capital, excluding cash, was \$14.6 million, compared to \$12.0 million at December 31, 2023.

I'll now turn the call over to Jake to discuss our RPO business.

Jacob Zabkowicz

Global Chief Executive Officer-Hudson RPO Ltd., Hudson Global, Inc.

Thank you, Matt, and good morning. In the second quarter of 2024, we further expanded our geographical footprint and service offerings with the acquisition of Striver, a UAE-based talent acquisition firm. This acquisition,

in addition to our acquisition of Executive Solutions in the first quarter and our continued enhancement of internal talent enabled Hudson RPO to continue providing best-in-class service on a global scale.

On the organic growth front, we have prioritized our land-and-expand strategy within our existing client base and made notable progress on this initiative in the second quarter, where we added significant scope to a couple of our key existing client relationships.

While the scope and scale of new business opportunities coming to market have been smaller than what we're used to seeing, we've been nimble and aggressive in pursuing all opportunities with the goal of expanding and deepening these relationships over time as hiring conditions improve. In general, we're seeing client executives taking longer to make decisions than what we've seen historically, which is why the growth in our sales pipeline of potential opportunities have outpaced our opportunities converted to wins.

Lastly, we've made difficult but necessary decisions regarding reductions in our global workforce in response to the market conditions as Jeff alluded to earlier. In addition to protecting our profitability, these cost-saving measures help us reorganize and optimize the talent within our organization, so we're better positioned to respond to future upturn in activity levels.

I'll now turn the call back over to Jeff for some closing remarks.

Jeffrey Edward Eberwein

Executive Chairman & Chief Executive Officer, Hudson Global, Inc.

Thank you, Jake. Before opening the line to questions, I'd like to reinforce Jake's message that despite today's talent environment, we're encouraged by the feedback we're receiving from our clients and are excited by our new business wins and robust sales pipeline.

Furthermore, the results of the internal changes and cost-saving initiatives we've implemented across our entire organization should help our bottom-line results in the coming quarters. We're confident in our ability to deliver value to stockholders, while serving the needs of existing and new clients going forward.

We continue to believe our stock is undervalued and thus continue to view share repurchases as an attractive use of capital.

Under our \$5-million common share repurchase program initiated last year, we've repurchased to date over 150,000 shares for \$2.5 million, including 87,000 shares for \$1.5 million in the second quarter of 2024. These repurchases were executed in both the open market as well as privately negotiated transactions and we continue to look for cost-effective opportunities to shrink our share count over time.

Operator, could you please open the line for questions?

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] . The first question comes from Marc Riddick with Sidoti. Please go ahead.

Marc Riddick

Analyst, Sidoti & Co. LLC

Hey, good morning.

Q

Jeffrey Edward Eberwein

Executive Chairman & Chief Executive Officer, Hudson Global, Inc.

Good morning.

A

Marc Riddick

Analyst, Sidoti & Co. LLC

So, I was wondering if we could start with – understandable with sort of, you know, client behavior, I was wanting to talk a little bit about the – when talking about the, I think the commentary was around the smaller scope and scale. Can you talk about maybe some of the things that folks are kind of willing to be active with currently, and maybe some of the things you feel like they're sort of pushing off?

Q

Jeffrey Edward Eberwein

Executive Chairman & Chief Executive Officer, Hudson Global, Inc.

Sure. Jake, why don't you handle that one?

A

Jacob Zabkowicz

Global Chief Executive Officer-Hudson RPO Ltd., Hudson Global, Inc.

Good morning, sir. How are you?

A

Marc Riddick

Analyst, Sidoti & Co. LLC

Good morning. Good, yourself?

Q

Jacob Zabkowicz

Global Chief Executive Officer-Hudson RPO Ltd., Hudson Global, Inc.

Very good. Thank you. Great question. So what we're seeing in the market right now is a little bit of a hesitation. And, we – some have coined it The Great Hesitation, where the scope and scale of new business has – is out there, but when it really comes to the finalization of what's being offered or what's being needed, that scope has significantly shrunk. Where we have seen the level of smaller deals save between 500 to 1,500 hires increase, and a little bit of a slowdown or hesitation on those larger deals of, say, 5,000-plus hires.

A

We do still see those opportunities in the market, but those are taking a little bit longer than what we normally see in our sales cycle. And that's impacting obviously our new logo revenue growth at this point in time. But we do expect that to pick up in Q3 and Q4.

Marc Riddick

Analyst, Sidoti & Co. LLC

Okay...

Q

Jeffrey Edward Eberwein

Executive Chairman & Chief Executive Officer, Hudson Global, Inc.

And Marc, when...

A

Marc Riddick

Analyst, Sidoti & Co. LLC

I'm sorry.

Q

Jeffrey Edward Eberwein

Executive Chairman & Chief Executive Officer, Hudson Global, Inc.

Marc, when Jake was talking about hires, he's talking about annual hiring level. So, 5,000 would be like a three-year contract where we're pricing it and budgeting it on 5,000 hires per year going forward.

A

Marc Riddick

Analyst, Sidoti & Co. LLC

Okay. And then are you getting any sense as far as feedback, as to clients' receptivity to engage with RPO, or are you getting a sense of those who are considering shifting to maybe folks who have not been in the space before, as a measure of efficiency going forward?

Q

Jacob Zabkowicz

Global Chief Executive Officer-Hudson RPO Ltd., Hudson Global, Inc.

Marc, I would say...

A

Jeffrey Edward Eberwein

Executive Chairman & Chief Executive Officer, Hudson Global, Inc.

Jake, go ahead.

A

Jacob Zabkowicz

Global Chief Executive Officer-Hudson RPO Ltd., Hudson Global, Inc.

Yeah. Marc, I think from a standpoint of that, we're seeing really no changes from the behaviors of a first New Year client that have decided to go out to RPO versus existing clients and either expanding or contracting. So, it's not a notable change. What I would share with you is that RPO still is a avenue of cost savings and scalability to many of our partners and clients. We're seeing that in a lot of our base where we're actually expanding into other geographies, as I mentioned earlier, other remote geographies that they do not have the scale or flexibility to expand into those regions.

A

So, as far as the first year and/or, you know, clients taking their business back in-house, we're not seeing a major trend or shift than what we've seen in the past.

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

Okay. And then I wanted to -- I wasn't -- bear with me, was double-checking on thinking about -- and maybe you could talk a little bit about tax rate, I guess, in the -- in 2Q, I think that was maybe a little higher than -- or maybe there was something in there that maybe we're missing.

Jeffrey Edward Eberwein

Executive Chairman & Chief Executive Officer, Hudson Global, Inc.

A

Yeah. Marc, our tax rate is notoriously hard to predict because of our...

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

Yeah.

Jeffrey Edward Eberwein

Executive Chairman & Chief Executive Officer, Hudson Global, Inc.

A

...mix of business. And the best guidance I can give you is just to use a blend of statutory rates across the countries we do business. The US is lower than Australia and we don't pay any tax in the US, so our tax rate in the US is zero. So, it really ties into business mix. That's probably the best advice I can give you. And in our 10-Q, it's going to come out after the close today and there'll be some more disclosure in the 10-Q. And if that doesn't answer any questions you have as they get Matt Diamond, our CFO call.

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

Okay. I'm sure I will, yeah. And then I guess one other thing. So I was sort of thinking about maybe thoughts around the share repurchase activity and thoughts there for, you know, for the remainder of the year. I guess we're about now halfway through the authorization, somewhere in that ballpark?

Jacob Zabkowicz

Global Chief Executive Officer-Hudson RPO Ltd., Hudson Global, Inc.

A

Yeah, that's right, Marc. So, we -- I think the biggest thing I would leave you with is that we think we're at the bottom and we're starting to recover. For example, this is the first quarter in a long time where we've had quarter-over-quarter net revenue growth, and we think that's going to continue. So, we've thought our stock as cheap for some time. And, you know, the window was finally open in Q2 and we found some willing sellers. And so we're able to be a little more active in Q2 than we were in the past.

And I would just say we have a soft goal of repurchasing 10% of our shares this year versus what it was on January 1st. And, you know, it will depend on the window being open. It'll depend on our ability to find some willing sellers where we can do a privately negotiated transaction. Those are the most efficient by the way, because buying open market is -- we're subject to 10B-18 rule that it's -- there's volume limitations and -- you know, so how much the stock is trading has a big impact on how much we're able to buy back.

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

Okay, excellent. I appreciate it. Thank you very much.

Jeffrey Edward Eberwein

Executive Chairman & Chief Executive Officer, Hudson Global, Inc.

A

Good questions. Thanks, Marc.

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

Jeffrey Edward Eberwein

Executive Chairman & Chief Executive Officer, Hudson Global, Inc.

A

Operator, should we hold it open for another minute in case somebody has a question?

Operator: Certainly.

Jeffrey Edward Eberwein

Executive Chairman & Chief Executive Officer, Hudson Global, Inc.

A

Just in case someone wants to get in the queue.

Operator: Sure. [Operator Instructions]

Jeffrey Edward Eberwein

Executive Chairman & Chief Executive Officer, Hudson Global, Inc.

All right. Well, hearing none, I just want to say thanks for joining us today. Thank you 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 the next quarter's update call. Have a good day, everybody.

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

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