

Insperity, Inc. First Quarter 2026

Introduction

Jim Allison

Thank you. We appreciate you joining us today.

Let me begin by outlining our plan for this afternoon's call. First, I'm going to discuss the details behind our first quarter 2026 financial results.

Paul will then comment on three strategic initiatives in 2026: our margin recovery plan, our efforts to rebuild growth momentum, including the HRScale rollout, and our AI initiatives. I will return to provide financial guidance for the second quarter and full-year 2026. We will then end the call with a Question & Answer session.

Before we begin, I would like to remind you that Paul 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 such forward-looking statements and (2) reconciliations of non-GAAP financial measures to their comparable GAAP measures, please see the Company's public filings, including the Form 8-K filed today, which are available on our website.

First Quarter 2026 Results

Today, we reported Adjusted EPS for the first quarter of \$1.31 and Adjusted EBITDA of \$103 million. Each of these results exceeded the midpoint of our expected range. Our quarterly results included outperformance in gross profit and operating expense management, partially offset by slightly lower than expected unit growth.

The average number of paid worksite employees came in at the low end of our forecasted range at 303,049, a 1.0% decrease versus Q1 2025. As you may recall from last quarter's call, our fall campaign sales and year-end client retention were both impacted by our margin recovery efforts, which we included in our paid worksite employee guidance. WSEEs paid from new client sales declined by 7% compared to Q1 2025. Client attrition totaled 11% in Q1 2026, within our historical range of 9% – 12%. Net hiring within the client base was in line with our forecast and slightly higher than Q1 2025, but the hiring occurred later in the quarter than we had expected which impacted the average WSEEs paid for the quarter. Paul will discuss our WSEE results in more detail in a few minutes.

Total gross profit in Q1 2026 decreased by 3% to \$302 million. This represents a significant improvement compared to the 21% decline that we experienced in Q4 2025 and demonstrates the progress of our margin recovery plan. Gross profit per WSEE in Q1 2026 was \$332 per month, which was slightly above our forecast and within our range of expectations. The favorability was primarily driven by lower-than-expected benefits costs, partially offset by the lower WSEE volume.

Benefits costs per covered employee increased by 5% over Q1 2025, which was a solid improvement compared to the 9% level we encountered throughout last year. Much of this improvement was expected, driven by the positive impacts of a favorable client mix change during our year-end transition that was influenced by our pricing and client retention strategy, plan design changes and our new contract terms with UnitedHealthcare.

It is important to note that the new United Healthcare contract is anticipated to have a positive impact of helping to flatten our quarterly earnings pattern starting this year, with less expected earnings early in the year and more expected earnings later in the year. This is primarily the result of the pooling level change from \$1 million per member per year down to \$500,000. The new pooling limit includes a higher fixed premium that is charged evenly on a PEPM basis throughout the year, while the claims reimbursements are likely to be significantly weighted toward the later quarters of the year.

While it is still early in the year, we are pleased with the progress of our margin recovery plan and the lower-than-expected Q1 benefits costs. We have seen several positive signs contributing to these results, including slightly favorable runoff of prior period claims, reduced large claim activity and lower-than-expected pharmacy claims. At the same time, we remain cautious about the range of potential outcomes for the remainder of the year, which I will discuss later in the call.

Total operating expenses decreased by 1% to \$240 million in Q1 2026, which includes a \$9 million restructuring charge primarily related to severance costs associated with a recent workforce realignment. Excluding the impact of the restructuring charge, our operating expenses decreased by 5%.

During Q1 2026, we invested a total of \$13 million in HRScale, including \$8 million in operating expenses and \$5 million in capitalized costs. This compares with \$13 million in Q1 of 2025, all of which was expensed.

For Q1 2026, the effective income tax rate for purposes of Adjusted EPS was 41% versus 29% in Q1 2025. This significant change was the result of our lower stock price, which reduces our tax deduction related to the vesting of stock compensation. Since the vast majority of our stock compensation vests in Q1 of each year, our effective tax rate is expected to normalize for the remainder of the year.

The higher effective tax rate for Q1 2026 had a negative impact on Adjusted EPS. Our Adjusted EPS of \$1.31 was 17% lower than the \$1.57 we reported in Q1 2025, while our Adjusted EBITDA of \$103 million was 1% higher than the \$102 million we reported in Q1 2025.

Cash Flow, Liquidity and Capital Allocation

During the first quarter, we continued to return capital to our shareholders through our regular dividend program, paying \$23 million in dividends, along with the repurchase of 171,000 shares of stock at a cost of \$4 million.

We ended the quarter with \$36 million of adjusted cash. The decrease in adjusted cash was primarily the result of various seasonal working capital fluctuations, including the timing of certain corporate payroll, health care and software maintenance contract funding.

As of March 31, 2026, we had \$380 million in unused capacity under our credit facility, of which approximately \$330 million is available to borrow.

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

Paul Sarvadi

Thank you, Jim, and thank you all for joining our call. Today, I plan to cover three main areas. First, I'll share insights on our strong earnings results in Q1 and how we're executing our strategy for margin recovery this year. Next, I'll talk about our actions to regain growth momentum throughout the remainder of the year, especially as we navigate macroeconomic challenges in the SMB sector. Lastly, I'll provide our perspective on the evolving AI landscape and highlight the opportunities ahead for Insperity's strategic HR services, technology, and expertise.

We are pleased with our Q1 earnings results, which reflect the effectiveness of our efforts to overcome the health care claim margin pressure experienced in 2025. As we discussed last quarter, our three-year plan prioritizes margin recovery in year one. The main drivers behind our successful margin recovery are our new agreement with United Healthcare, our benefit plan design changes, our strategic pricing and client selection, and our improvements in operating efficiency.

We believe these strategies and tactics provided the desired step up in margin to begin the year and we continued these actions throughout Q1. We plan to continue this emphasis throughout the balance of the year with the objective of achieving a substantially full recovery as we move into 2027.

Our second priority for this year, after margin recovery, is regaining our growth momentum as we work to build the foundation for balanced growth and profitability in year two of our three-year plan.

Worksite employee growth is driven by our client sales and retention, and the net change in employment within the client base. Let's look at each one to understand our outlook for the timing of regaining our growth momentum coming out of Q1.

I mentioned last quarter, as we focused on margin recovery, we expanded our tools, processes, and client sponsored benefit options to support client selection and pricing for new and renewing accounts. While we can clearly see these steps supported our gross profit recovery, they also contributed to lower-than-expected new booked sales and client retention.

The effect on sales continued in Q1 as booked sales came in below our internal targets except for HR360 mid-market sales. We have evaluated the processes and the outcomes and have recently implemented key learnings we believe will improve our booked sales results over the balance of the year.

Our ongoing efforts to improve HR360 and HRCore sales combined with our new growth catalyst, HRScale are expected to contribute to our growth momentum.

I am very pleased to report today our initial HRScale beta clients were effectively onboarded in March and payrolls and invoices were processed in April as scheduled. We are off and running and the pipeline for HRScale clients is building.

We believe HRScale is an unparalleled comprehensive solution that combines Insperity's flagship HR services and compliance expertise with Workday client facing technology. We believe it is a growth catalyst for two reasons. First, it addresses our historical success penalty where clients we have helped grow and mature decide to leave Insperity for technology built for larger firms.

Second, we believe we will sell many more new larger accounts since this combination of technology and services are a hand-in-glove fit for the mid-market space of businesses with 150 to 5,000 employees.

Our early sales efforts indicate that we are on the right track. We currently have signed commitments for nearly 6,000 worksite employees to be on board within the next 6 months. We also have sales activity ramping up significantly including meetings, demos, bids, and closing negotiations for both current clients planning to upgrade and new clients attracted to our unique comprehensive HRScale service and technology solution.

Our sales and marketing efforts for HRScale have also been refined based on the specific advantages that have resonated with business leaders. In particular, they view HRScale as a lower risk decision due to the lower upfront investment, reduced time to value, and lower ongoing cost, compared to typical HCM and HR service vendor combinations in the mid-market space.

We are actively engaged in the HRScale sales process with new and renewing accounts targeting start dates of January 1, and each quarter of next year. We believe our HRScale ramp up could play a significant role in regaining growth momentum as we move into 2027.

On the client retention side, while our strategy resulted in persistent attrition at the higher end of historical levels, we are seeing the desired impact as a greater percentage of departing clients were less profitable accounts, resulting in an overall improvement to client profitability.

We expect the slightly higher attrition to continue but moderate over the course of the year due to the smaller number of accounts renewing monthly and improvements we have put in place.

The third contributor to our worksite employee growth metric is the net change in the existing client's employee base. This continued to show volatility in Q1, turning negative in February and positive in March.

We are cautious about the potential impact of the ongoing international conflicts and macroeconomic factors, including inflation fears and lingering uncertainty about tariffs, which could affect small business expansion or hiring.

Consistent with recent NFIB surveys, results from our Business Outlook Survey show a notable shift in sentiment, with small and medium businesses becoming more cautious since January, particularly regarding the wider economy. More clients now anticipate economic challenges in the coming year.

Worries about the economy have grown significantly, as 54% of respondents expect a negative impact on their businesses, an increase from 42% in January, while only 25% foresee positive effects—down from 37%.

Optimism among clients has decreased compared to previous quarters; nevertheless, most—64%—still believe they'll perform better in 2026 than in 2025, although this figure has modestly dropped from 70% in January.

Our survey reveals that clients are showing less confidence regarding increases in compensation, hiring, net earnings, and sales volume. There's also a marked rise in expectations for higher capital asset costs compared to January, indicating greater sensitivity to costs and inflation awareness.

The actual small and medium size business data we monitor as employment indicators align with this decline in business leadership sentiment. Overtime as a percentage of base payroll, and commissions paid to the sales staff of our clients were both below historical thresholds that typically have preceded increases in hiring and pay raises.

So, in this environment, our paid worksite employee growth came in at the low end of our range. Based on the starting point for Q2 combined with our continued emphasis on margin recovery and the sentiment in the small to medium size business community, we expect the low point of our previous worksite employee range to be closer to the midpoint of our new guidance.

However, we expect continued progress on margin recovery to offset the shortfall from lower worksite employee volume and as a result, we are reiterating our original Adjusted EBITDA guidance for this year.

Now I would like to discuss how Artificial Intelligence is changing the landscape and could become a driving force for Insperity in the years ahead. First, we'll look at broad employment challenges and how AI might affect the workforce. While the labor market faces risks of displacement, there are also exciting growth opportunities as AI sparks the rise of new businesses.

AI is actively transforming the workplace by automating various tasks, which is expected to impact many roles. Although white-collar and entry level positions are widely expected to experience the most upheaval, AI is also boosting productivity and generating new roles. So far, this shift has only slightly affected overall employment.

This shift has the potential to contribute to a decline in traditional employment, while significant disruption in other roles, such as coding, may drive changes that require employees to acquire new skill sets to leverage AI effectively.

We believe disruption and a high rate of change in employment can possibly affect the overall level of employment growth and volatility in the SMB sector; however, it also potentially magnifies the need for sophisticated HR services, technology, and insights which could substantially increase demand for Insperity's comprehensive HR solutions.

AI is driving new business formation in the US, with applications reaching nearly 500,000 per month in Q1, especially in AI-focused sectors. Growth remains strong at about 12% year-over-year for Q1.

AI appears to be expanding opportunities and making starting a business easier, leading to record entrepreneurship among small and mid-sized companies. While past technology shifts like PCs and the internet replaced jobs, they also boosted employment by fostering new businesses.

Now as we drill down into our target of the SMB community we see exciting possibilities for our HR solution offerings. As we roll out new AI agents alongside our AI assisted HR experts, our strategy is to provide the flexibility to service our clients and worksite employees according to their preferences, while also streamlining our operations and accelerating our product development.

SMB owners wear many hats and solution providers are increasingly becoming the principal avenue as channel partners for AI adoption among SMBs, utilizing established relationships to deliver secure and practical AI solutions that these businesses may find challenging to implement independently.

Insperity is exceptionally positioned as a premium HR channel partner to assist top-performing small and medium-sized businesses in managing disruptions and personnel challenges resulting from AI-driven transformations.

Our recent survey of our small and medium-sized business clients indicates that AI adoption is progressing; however, it does not appear to be driving widespread workforce changes yet. Sixty-two percent of clients are piloting or integrating AI primarily to support staff, facilitate routine operations, and improve customer service.

We're leveraging our service using AI with our proprietary agent strategy. We've started by implementing this solution internally in HR and Payroll, resulting in higher productivity and service quality.

We will soon expand this HR360 Agent to help HR360 clients navigate the platform, find answers they need, and boost engagement. This tool acts as a co-pilot, removing barriers and increasing value for PEO customers.

The next HR360 Agent release will further improve client and employee experiences during major events, offering personalized support, faster onboarding, and immediate access to expertise, while reducing our service workload and maintaining security.

The third HR360 Agent version will introduce conversational reporting using demographic and transaction data, shifting from static reports to real-time insights for better decision-making without the need for users to have advanced analytics skills.

We're also applying AI across the software development cycle in an effort to accelerate product launches, improve developer productivity, and enhance code quality through AI-enabled methodologies.

As we look further ahead, we believe the nature of our business offers an exciting future for Insperity as the AI transformation continues to unfold. Despite technological advances, we believe human to human interaction to remain essential and valuable in the human resource business.

AI can deliver powerful data and insights, but when it's time to make the decisions that affect a company and its people, there is no substitute for experienced human judgment, and having Insperity standing shoulder to shoulder makes a profound difference.

Our highest value for our SMB clients, is the advice and support we provide through a lens of trust, judgement, care, and protection of their company and their people, both employees and their families. We believe AI will likely add value to the strategic HR services, technology, and expertise provided by Insperity.

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

Jim Allison

2026 Outlook

Thanks, Paul.

Our updated outlook for the full year 2026 is comprised of three primary drivers. First, we are revising our unit growth down to reflect both a weakening in small business economic sentiment and a slightly larger impact of our margin recovery plan on new client sales and client retention. Second, we believe that our margin recovery plan is slightly ahead of schedule, and we expect some continued improvement from favorable client mix changes related to our pricing and client renewal strategy. Third, we expect some continuation of the operating expense savings that we experienced in Q1. As a result, we continue to forecast Adjusted EBITDA in a range of \$170 million - \$230 million for the full year 2026.

With regards to WSEE growth, we are forecasting a range of 303,000 – 307,000 for the full year 2026, which represents a decrease of 1.0% to 2.3% from 2025. We have adjusted each of the drivers of unit growth in our forecast. After being at the low end of our forecasted range in Q1, our starting point for the 2nd quarter is a little lower than previously expected. In addition, as Paul discussed, our new client sales and client retention have revised due to weakness in small business economic sentiment and the impact of our pricing and client renewal strategy. We continue to analyze and revise our strategies to achieve our margin recovery goals while also focusing on regaining our growth momentum, and we have implemented some changes that we believe can have a positive impact on our sales and retention results as we progress through the year. We continue to expect net hiring within the client base to be in the low single-digit range similar to last year, with some positive benefit of summer help in Q2 that should revert in Q3.

Moving to margin recovery, we are pleased with the progress we have made to date, and we are forecasting some continuing improvement as we continue executing the plan throughout 2026. Some of the sales and client retention results that are a headwind to WSEE growth also create a potential tailwind for margin recovery. We continue to see that the profitability of terminating clients, including the client terminations we know about for Q2 and Q3, has been significantly lower than the profitability of those we are retaining, producing a favorable change in client mix. We are also cautiously optimistic regarding the pricing and risk profile of our new client sales. It's important to note that many of the factors that drive our pricing results have the potential to positively impact cost trends over time.

As I mentioned earlier, our Q1 benefits cost results were slightly better than expected, including lower runoff of prior period claims, reduced large claim activity and lower-than-expected pharmacy claims. While those results are generally consistent with the plan design changes and client mix changes, we are forecasting somewhat less favorability than we experienced in Q1.

With regards to operating expenses, we continue to expect year-over-year reductions in 2026 driven primarily by lower headcount and lower HRScale expenses, partially offset by some increase in marketing spend and growth in the number of Business Performance Advisors, along with other inflationary cost increases. At this point, we expect continuing favorability in the remaining quarters of the year but at a slightly lower level than in Q1 due to a few timing-related items. HRScale operating expenses are expected to be generally in line with our budget.

We expect our full year effective tax rate for Adjusted EPS purposes to be 36%. The effective tax rate for GAAP purposes could fluctuate from that based on the level of non-deductible expenses as a proportion of pre-tax income.

We expect our weighted average outstanding shares to be approximately 38.5 million for the remainder of the year, primarily reflecting the recent stock compensation vesting.

As a result of the revised effective tax rate and number of outstanding shares, our full year 2026 Adjusted EPS guidance range is now \$1.60 - \$2.60.

As for Q2 2026, we expect the average number of paid worksite employees to be in a range of 302,500 – 304,500, a decline of 1.5% - 2.1% from Q2 2025. We are forecasting Adjusted EBITDA in a range of \$18 million - \$46 million and Adjusted EPS in a range of \$0.02 - \$0.50.

As I mentioned earlier, our quarterly earnings pattern is expected to be somewhat flatter than our typical historical pattern for two primary reasons. First, our pooling level change with UnitedHealthcare from \$1 million per covered member per year down to \$500,000 resulted in a significantly higher premium charged evenly on a PEPM basis throughout the year, whereas the expected claims reimbursements in that program will likely be significantly weighted toward later quarters in the year. In addition, as we execute our margin recovery plan throughout 2026, the positive impacts are expected to be more pronounced as we move through the year.