Insperity, Inc. Second Quarter 2025

Introduction

Jim Allison

Thank you. We appreciate you joining us today.

Let me begin by outlining our plan for this morning's call. First, I'm going to discuss the details behind our second quarter 2025 financial results. Paul will then comment on our second quarter results, the ongoing implementation of our Workday strategic partnership, and our outlook for accelerated growth and improved profitability in 2026. I will return to provide our financial guidance for the third quarter and full-year 2025. 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.

Second Quarter 2025 Results

This morning, we reported 2nd quarter adjusted EPS of $0.26 and Adjusted EBITDA of $32 million. These results fell slightly under the low end of our forecasted range by $0.03 per share and $1 million, respectively, primarily due to a continuation of higher-than-expected benefits costs. I will provide additional details in just a minute.

Our unit growth was within our forecasted range, with the average number of paid worksite employees increasing by 0.7% over Q2 2024 to 309,115. Our sales force demonstrated resiliency and solid productivity in a market that continued to face many economic uncertainties. WSEEs paid from new sales increased by 2% over Q2 2024, reflecting an increase in sales efficiency from a team that is smaller and more tenured than it was a year ago. Our client renewals and service teams collaborated well to produce strong client retention, averaging 99% per month and in line with prior year results. Net hiring within the client base showed some improvement throughout the quarter, slightly exceeding both our expectations and Q2 2024 levels but remaining well below historical norms.

Gross profit per WSEE in Q2 2025 was $240 per month, down from $282 in Q2 of 2024. You may recall that the Q2 2024 results were positively impacted by favorable development of health care claims, which had totaled $25 million. In contrast, benefits costs in Q2 2025 continued to trend negatively, exceeding our forecast by $12 million. Of this amount, $8 million related to higher-than-expected pharmacy costs, driven by higher utilization of specialty drugs, such as the GLP-1's, and a related acceleration in the unit cost of pharmacy on a per script basis due to a change in the mix of prescriptions toward higher cost drugs. The remaining $4 million was primarily attributable to a modest increase for incurred-but-not-reported claims that we expect to pay in the future based on recent claims payment patterns.

We have not seen further deterioration in claims development related to older periods like we did in Q1, and we have seen some indications that the previously discussed acceleration in inpatient and outpatient service utilization has moderated somewhat but remains elevated. We did see large claim frequency continue at an elevated level, with cancer and heart-related conditions showing the largest year-over-year increases. However, we have not seen signs of adverse selection among new clients, as that large claim activity remains in a normal historical range.

As reported, benefits cost per covered employee increased 9.6% year-over-year in Q2 and by 9% on a YTD basis. These results are skewed somewhat higher by the timing of recording favorable claims experience in the 2024 period and unfavorable claims experience in the 2025 period. But the fact remains that benefits costs continue to trend at a higher year-over-year rate, even slightly higher than the top end of our prior forecasted range.

While this higher benefit cost trend has significantly impacted our earnings in 2025, we are executing plans designed to drive significant profitability improvement in 2026 through a careful combination of pricing increases, plan design changes and the negotiation of the anticipated renewal of our contract with UnitedHealthcare. As to pricing, we have and continue to implement higher pricing targets for both new and renewing business in a strategic and methodical way as we discussed in our Q1 call. We have been putting those bids out for a few months now, and our renewal discussions with clients do not appear to have changed in any meaningful way. We expect the impact of these pricing measures to accumulate throughout the 2nd half of this year and continue into 2026. As expected, we continue to see clients and plan participants migrate to lower cost plan options, which is a normal response to help offset the impact of higher prices. Plan migration has historically helped to mitigate the impact of higher cost trends over time. In addition, we have determined and are in the process of implementing benefit plan design changes effective January 2026 that are designed to further mitigate future cost trend and maintain our plan competitiveness in the marketplace. Our contract extension discussions with UnitedHealthcare are ongoing, and addressing the elevated pharmacy cost trends and the expanding utilization of specialty drugs is a high priority. As we execute this plan, a key takeaway is that the challenges we are facing are not unique to Insperity, and we believe that the approach we are taking to address them are commonplace to address current market conditions.

Operating expense management continues to be a keen area of focus, and we have seen company-wide alignment and execution that continued to successfully manage operating expenses below budget across all expense categories while continuing to invest in our strategic priorities. On a year-over-year basis, operating expenses decreased by 3%, with the most significant reductions in travel, professional fees and other G&A costs. During the 2nd quarter, we invested $14M in our Workday strategic partnership, which was consistent with Q2 of 2024.

Our effective income tax rate was impacted by the amount of non-deductible expenses as a proportion of pre-tax income.

Cash Flow, Liquidity and Capital Allocation

During the second quarter, we continued to return capital to our shareholders through our regular dividend program, paying $22 million in cash dividends. On a YTD basis, we have paid cash dividends of $45M and repurchased 224,000 shares of stock at a cost of $19 million. We ended the quarter with $114 million of adjusted cash, 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, Jim, and thank you all for joining our call. Despite our reported Q2 results and the lower guidance for this year, we remain confident in our outlook for accelerated growth and improved profitability in 2026. This is due to several reasons I will cover today starting with the growth momentum recently achieved and the drivers we expect to continue growth acceleration over the balance of the year and into 2026.

I will also cover our updated HR solution portfolio announced yesterday and our excellent progress on Insperity HRScale, our new joint offering being developed through our strategic partnership with Workday. I will finish with the robust plan we are executing over the balance of the year and continuing into next year leading to our positive outlook.

The highlight of the first half of 2025 is the resilience, agility and focus on sales and retention amid a complex and shifting market landscape. We successfully addressed the evolving uncertainty experienced by small and medium-sized businesses resulting from macroeconomic tariff and policy developments in the first half of the year, and challenges stemming from specific insurance carrier publicity issues in Q2.

Even though year over year growth in paid WSEEs was 0.7% in each of the first two quarters, an underlying increase of more than 3% occurred from the low point in February through the end of July. All three growth drivers, including sales, client retention and net hiring within the existing client base contributed to this growth acceleration and were stronger than last year.

Booked sales also showed relative strength in the face of some significant headwinds, which we accomplished with 11% fewer trained business performance advisors selling a slightly greater number of worksite employees than in the same period last year. This sales efficiency improvement of 13% in Q2 validated the sales organization changes put in place early in the year and is encouraging as we approach the fall selling season.

A key driver of these booked sales results in the quarter was our successful marketing programs that achieved our qualified lead goal and converted a solid number of leads into discovery calls and opportunities to bid for our business performance advisors.

Our marketing team also completed our new product architecture and updated our HR solutions portfolio to rebrand our flagship PEO service as Insperity HR360, our traditional employment solution as Insperity HRCore, and working with our strategic partner, Workday, to name our joint solution appropriately Insperity HRScale.

Each solution is tailored to address specific aspects of human resources management, offering unrivaled, comprehensive support for businesses at every stage of growth and development. Together, these three premium HR solutions expand the total addressable market of SMBs and employees that can be served by Insperity.

Our portfolio of add-on products is dedicated to solving complex challenges for these companies and improving the lives of business owners and their employees.

Over time we believe that offering solutions to these clients, such as our recent addition of Insperity Contractor Management powered by Wingspan, and to eligible employees, such as our Insperity Perks Plus program, may add significant revenue streams to the company or increase the "stickiness" of our solutions.

Now I would like to focus on Insperity HRScale and the excellent progress we have made on the way to bringing this unique solution to the marketplace. The four defined pillars of work in our strategic partnership have included our Insperity corporate tenant, our exclusive PEO client tenant, our deployment and enablement services, and our joint go-to market plan.

Our corporate tenant was successfully launched earlier this year, and important milestones were achieved in all three of our remaining major initiatives in the second quarter.

Our exclusive PEO client tenant is the major project deliverable embedding Workday Human Capital Management (HCM) as the client facing technology into the Insperity HR360 comprehensive HR services and technology platform to create Insperity HRScale.

We are pleased to announce today that a detailed work and testing plan developed and agreed upon by both Workday and Insperity teams have established a target go-live date for Insperity HRScale beta clients early next year.

This is an important step, and our enablement and deployment team is ready to work with selected beta clients for the ramp up to the anticipated go-live date.

Although this plan is detailed, precise, and very well thought out, there are remaining risks that could cause the date to move out a bit further but in any event we have direct line of sight to launch Insperity HRScale.

Having agreed on a plan for the beta clients, we are actively working to define the timeline for a number of new clients and an additional group of current Insperity clients to become Insperity HRScale clients later in 2026.

I mentioned last quarter the completion of the go-to-market plan for HRScale with Workday. Senior leadership and other key personnel from both companies agreed upon the plan and methodology to take our joint solution to the market together.

We are aligned on the target market, the product name, messaging and competitive positioning, the sales motion, and most importantly we formed a new POD (a product-oriented delivery team) focused on achieving the objectives set by leadership of both companies.

We achieved our goal of establishing this team in Q2 and began co-selling discovery calls with target prospects in July. This team is focused on identifying suitable early adopter candidates, refining the appropriate sales motion, and selling the first new Insperity HRScale clients.

Obviously, this effort has just begun; however, in our view it is off to a very exciting start. The receptivity by prospects of the investment and commitment of Insperity and Workday to a strategic partnership focused on this underserved target market has been strong and encouraging.

Our market research has shown conceptual buy-in by mid-market companies to Insperity HRScale, which is designed to focus on affordability, ease and speed of deployment, reducing complexity, and agility as companies scale.

One of the most exciting milestones achieved recently is the completion of the Insperity HRScale pricing strategy provided by a leading consultancy firm based upon extensive market research. These results affirmed the target market's intense need for both HR services and technology and validating the premium product fit of Insperity HRScale.

This research specifically identified how components of Insperity HRScale are valued by the target market and determined their willingness to pay at various levels. The research supports HRScale premium pricing potential, compared to historical HR360 pricing for mid-market accounts.

This has provided what we need to establish our initial pricing framework including up front deployment and enablement fees and ongoing monthly HR service and technology support fees at levels exceeding our expectations yet within the value range that we believe the target market is willing and expecting to pay.

This also provided valuable information to determine a pricing roadmap to align with the Insperity HRScale product roadmap into the future.

Now let me provide some context for our growth and profitability outlook for 2026 based upon executing our plan for the balance of the year. This plan has three key elements including continuing growth acceleration, recovering our gross profit margin, and leveraging our operating expense management trend.

Every year, the success of our fall sales and retention campaign is pivotal to achieving the desired starting point for the coming year in paid worksite employees setting the stage for continued growth acceleration.

This year, we are starting earlier, offering strong incentives, and investing more to increase the likelihood and degree of success in sales and retention. We are officially launching the campaign in just a few weeks, which is approximately one month earlier than previous years.

We have strong incentives for employees and prospective clients for sales and retention activity and results. We have also allocated a portion of the year to date operating expenses savings to invest in marketing opportunities we expect to drive an increase in sales leads and opportunities. We expect to be making announcements and increasing advertising soon that will reveal significant potential return on this added investment.

Another input to growth expectations is the state of the small to medium size business community which we believe is at an important inflection point compared to the last few years of one macroeconomic speed bump after another from inflation and interest rates to government policy and tariffs.

The recent federal legislation signed into law is validation of support for the SMB community especially on the tax and investment outlook. We believe this may play out to be a catalyst for expansion in the SMB community which could move the hiring trend back to historical levels next year.

The second key element in our game plan for the balance of this year is execution of our gross profit margin recovery plan in the healthcare pricing and cost framework. Jim has described three critical initiatives including pricing allocations, plan design changes, and our contract negotiation with our insurance carrier.

All three have moved forward rapidly in the last quarter and despite the benefits cost trend being slightly worse than expected, our recovery plan is progressing along and we believe we are in a position to see improvement as we execute the recovery plan this year heading into 2026.

Another aspect of our positive outlook for next year is continuing the recent operating expenses management focus to ensure operating leverage can be part of our three-year plan beginning in 2026. One key element of this plan is to continue down our AI path which we believe can be significant in our business model.

Development of our AI capabilities, as I have discussed in the past, is well underway and in use by our client-facing HR professionals. Our AI focus is to improve the efficiency, value, productivity and quality of our services to the benefit of our customers and our internal operations.

Our strategy is to leverage the combination of our own propriety tool to optimize Insperity's HR and service delivery expertise with other specific AI capabilities native to platforms that we use across the company.

So, in summary, we have responded well to the challenges we have faced year to date and our plan for the balance of the year is on course toward accelerating growth and improved profitability in 2026 and beyond.

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

Jim Allison

Thanks, Paul.

3rd Quarter and Full Year 2025 Guidance

Now, let me provide an update to our full-year 2025 outlook.

As Paul discussed, we have started to see some modest WSEE growth acceleration in recent months. In addition, there are indications that clarity around tax policy has buoyed small business economic sentiment. At the same time, we remain cautious about the level of net hiring in the existing client base. For the full year, we are now forecasting WSEE growth of 1% to 2% over 2024.

Given the higher benefits cost trends experienced in the first half of the year and more broadly seen in the marketplace at large, we are raising our forecasted range of benefits cost per covered employee by 75 – 100 basis points for the full year. We anticipate that the benefits cost trend will taper down from the 9% we have experienced in the first half of the year for two primary reasons. First, year-over-year comparisons in the first half of 2025 were impacted by last year's favorable claims development, and that impact should subside in the 2nd half of the year. In addition, we continue to see favorable changes in our plan demographics and plan migration that historically have helped to favorably impact benefits cost trends.

We continue to expect that operating expenses will decline slightly sequentially in each of the remaining quarters. For the full year, we expect that operating expenses will be an overall reduction compared to 2024. This includes planned spending on the implementation of the Workday strategic partnership, which we expect to total approximately $58 million in 2025 vs. $57 million in 2024 and additional marketing spending for our fall sales campaign.

For purposes of adjusted EPS, we are forecasting an effective tax rate of 29% for the full year 2025. The effective tax rate on GAAP EPS is expected to be somewhat higher and could fluctuate based on the level of non-deductible expenses as a proportion of pre-tax income.

Based on all of these factors, we are forecasting full year Adjusted EBITDA in a range of $170 million to $205 million. We are forecasting full year Adjusted EPS in a range of $1.81 to $2.51.

As for Q3, we are forecasting the average paid WSEEs to be in a range of 312,200 to 315,300, which represents an increase of 1% to 2% over Q3 of 2024. We are forecasting Adjusted EBITDA in a range of $24 million to $44 million and Adjusted EPS in a range of $0.06 to $0.49.

As economic concerns show signs of stabilizing, business owners continue to see employee retention, engagement, benefits and cost of compliance as significant concerns. We believe that these are positive trends as we approach our fall sales and client renewal season. We are executing a pricing plan and implementing plan design changes in January 2026 that we believe will address the elevated benefits cost trend environment. We remain focused on operating expense management and have initiated a 3-year planning process to further sharpen the alignment of our sales, operating and development plans with our updated HR solutions portfolio strategy, as we look to drive improved profitability in 2026 and beyond.