Insperity, Inc. Second 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 second quarter 2026 financial results.

Paul will then comment on the progress of our margin recovery plan and our game plan to regain WSEE growth momentum. I will return to provide financial guidance for the third 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.

Second Quarter 2026 Results

Today, we reported Adjusted EPS for the second quarter of $0.34 and Adjusted EBITDA of $36 million. Both results exceeded the midpoint of our expected range, and they represent a year-over-year increase of 31% and 13%, respectively. We believe these results reflect the significant progress we have made in our ongoing margin recovery plan.

As a reminder, our margin recovery plan includes three key components. First is our ongoing pricing and client retention strategy, which we intend to continue through the end of the year. Second is our benefits plan design changes and UnitedHealthcare contract changes, both of which became effective at the beginning of the year. The third key component is a robust focus on operating expense management.

The financial impact of this plan is evident in our second quarter results. We believe the impact will continue to build over the course of the year, consistent with our goals of producing a significant profit recovery in 2026 and laying the foundation for further earnings growth in 2027.

The average number of paid worksite employees in Q2 was 305,764, which was above the high end of our expected range and represents a modest 1.1% decrease versus Q2 2025. The WSEE outperformance was primarily driven by higher-than-expected net hiring within the client base, which helped mitigate the expected impact of our margin recovery plan on sales and client retention. For Q2, client retention and WSEE's paid from new clients were both in line with our forecast. Paul will provide more color around our WSEE results in a few minutes.

Total gross profit in Q2 2026 decreased by 3% to $217 million. Gross profit per WSEE decreased by 1% to $237 per month, which was in line with our expectations and was a slight improvement over the 2% decrease reported in Q1 2026. For Q2, our margin recovery plan produced improvements in the matching of price and cost in our benefits area. Those improvements were largely masked by the year-over-year change in workers' compensation costs, which were impacted by lower actuarial reserve adjustments related to prior policy years.

Benefits costs per covered employee increased by 5.2% over Q2 2025, consistent with our expectations and first quarter results. While underlying benefits cost trends remain high in the health care marketplace, our 2026 results have been impacted favorably by a client mix change influenced by our pricing and client retention strategy, along with plan design changes and UnitedHealthcare contract changes that became effective at the beginning of the year.

As I mentioned last quarter, we expect the UnitedHealthcare contract change to help temper the seasonality of 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 per employee per month, or PEPM, basis throughout the year, while the related favorable impact on claims cost is expected to be significantly weighted toward the later quarters of the year, with the largest impact in Q4.

With regards to workers' compensation costs, we have seen relative stability in our current period costs compared to our expectations. However, favorable adjustments in actuarial reserves related to prior policy years declined in Q2 2026 versus Q2 2025. This is reflective of a market-wide increase in claim severity, with elevated health care cost trends being a significant contributor. The lower level of actuarial adjustments was generally in line with our expectations.

At the halfway point of the year, we are pleased with the execution of our margin recovery plan, our pricing and client mix results, and the relative stability of our benefits costs so far. At the same time, we continue to be vigilant regarding the range of potential outcomes for benefits costs over the remainder of the year, which I will discuss later in the call.

In conjunction with our margin recovery plan, total operating expenses decreased by 8% to $211 million in Q2 2026 due primarily to lower headcount-related costs and stock compensation costs, partially offset by increased advertising expenses to drive leads into our sales pipeline. Q2 cash operating expenses decreased by 6% versus Q2 2025.

With beta clients being live on HRScale in Q2 2026, we saw a reduction in certain investment costs and the transition of client onboarding and service-related costs from product investment into operational costs. As a result, our total investment in the development of HRScale for Q2 declined to $8 million, of which $5 million was capitalized.

Cash Flow, Liquidity and Capital Allocation

During the second quarter, we continued to return capital to our shareholders through our regular dividend program, paying $23 million in dividends.

We ended the quarter with $95 million of adjusted cash compared to $36 million at the end of Q1. During the quarter, we borrowed $50 million under our credit facility for working capital purposes, primarily to address normal fluctuations associated with the timing of funding our direct cost programs.

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

Paul Sarvadi

Thank you, Jim, and thanks to everyone for joining our call. Today I'll discuss our successful execution of our margin recovery strategy year to date followed by our plans to lay the groundwork over the second half of the year regain growth momentum moving into 2027. This includes an update on our refined sales motion, HRScale progress, and AI initiatives which we believe will advance sales and retention efforts.

Our top priority for 2026 is margin recovery, and we are pleased that our Q2 results reflect the meaningful progress achieved in the first half of the year. This outcome was driven by exceptional collaboration across the company to address the health care claims trend and related margin pressure we experienced in 2025.

Executing this effort required company-wide cooperation, clear communication, and disciplined implementation of new pricing strategies, product offering enhancements, and the adjustment of many sales, client retention, and benefits processes.

These pricing and process changes created some initial challenges and as expected sales and retention finished at the lower end of our typical ranges in the first half of this year.

Against that backdrop, where some companies experience significant volume reductions, our modest 1% year-over-year decline in worksite employees paid clearly demonstrates the resilience of our organization and the value of our services, including the breadth, depth, and level of care delivered throughout this process.

The first half of this year also reflects strategic improvements that we believe can have a long-term impact of improving sales and retention while also supporting our efforts to reduce risk. In particular, we now provide more benefit options for current and prospective clients through our expanded insurance agency operation when it provides a better solution for the client.

While some clients choose to keep their own plan through a third-party broker, our insurance agency operation is also seeing success offering plans in our sales process which may continue the recent trend of clients selecting a client sponsored plan. At the end of Q2, 7% of our client base obtain their benefits outside of the Insperity plan, including 14% of new clients added within the past 12 months.

Demand for our insurance agency solutions continues to grow, and we are ramping up our capacity to capitalize on this opportunity. That said, we continue to expect that the bulk of our clients will choose to participate in the Insperity plan and there could be some movement in and out of the Insperity plan from year to year.

So, while we believe sales and retention efforts for the first half of the year were executed well, the results were tempered by the impact of the margin recovery pricing priority and significant change management.

The third growth factor in our model, net change in employment in the client base, stabilized in Q2 and exceeded our forecast after showing some volatility in Q1.

Each quarter we conduct a survey to compare actual hiring, pay rates, overtime and commissions to client sentiment for the upcoming quarter. The data and client sentiment coming out of Q2 reflect a positive outlook for their own companies for the remainder of the year.

Client confidence remains resilient in a cautious economic environment, with 63% of surveyed clients expecting their businesses to perform better in 2026 than in 2025.

Clients remain more optimistic about their own businesses and industries than the broader economy, supporting continued demand for our HR solutions that help them manage uncertainty while pursuing growth. Talent availability and workforce planning remain key client challenges.

The hiring environment remains stable, with increased overtime utilization and strong commission growth in Q2. Looking forward, roughly one-quarter of clients surveyed expect to hire in Q3 and more than one-third anticipate workforce growth in 2026.

As we look ahead to the balance of the year, we plan to continue our margin recovery efforts. At the same time, we believe sales motion changes across all three of our premium HR solutions are becoming more fully adopted and confidence is growing across the sales organization. We believe this sales motion progress combined with our HRScale ramp up and AI agent roll out, positions us well to advance sales and retention efforts over the balance of the year.

A Q2 highlight was the formal launch of HRScale, successfully onboarding and processing payroll for our beta clients and ramping up marketing and sales activity. We entered Q3 with sold HRScale accounts totaling nearly 8,000 worksite employees, including over 5,000 already live on the platform and approximately 3,000 moving through implementation.

This is a good start and we believe we are building momentum with HRScale. The early demand-generation signs are encouraging, and we're starting to see the benefits of broader market activity. The pipeline continues to move forward, with progress across both client migration opportunities and new prospects.

As a reminder, HRScale, our joint solution with Workday, is one of the most significant transformations at Insperity, designed to effectively enhance our PEO solution set for midmarket companies ranging from 150 to 5,000 employees.

We believe the addition of HRScale positions Insperity distinctively within the marketplace and serves as a new driver for sales and retention of larger clients. This significantly expands our total addressable market, advances our growth model, and provides greater visibility for future growth.

Our sales, marketing, service, product, and partner teams are working in sync, and our go-to-market activity is now rolling out across a wide array of marketing channels including events, partnerships, webinars, social media and more.

The referral and broker channel is also gaining traction. We're seeing opportunities from these sources enter the pipeline, and upcoming education sessions should help partners better understand and communicate the HRScale story.

On the operational side, the focus is clear: strong implementations, stable client experiences that enhance time to value, and the ability to scale with quality. We also have an ongoing dialogue with Workday to continue developing the product roadmap for HRScale and strengthen our go-to-market plan.

So, we continue to be excited about the HRScale opportunity. We're building demand, strengthening partner engagement, advancing the pipeline, and improving implementation readiness with the foundation in place to support this strategic growth initiative.

We also expect our AI strategy will add value to the strategic HR services, technology, and expertise provided by Insperity.

We continue to see growing receptivity to AI, both within Insperity and across our client base, reinforcing our belief that AI can amplify human expertise, strengthen service delivery, and improve productivity.

AI adoption and targeted use cases are accelerating, creating significant opportunities across Insperity from sales and marketing to client services and technology development. In many areas we believe AI will prove to be transformational for Insperity.

Client AI adoption is also accelerating, with 63% of surveyed clients reporting that they are either piloting AI or integrating it into their business strategy, and only 8% reporting no plans to use AI.

Insperity's AI strategy is focused on practical business impact: enabling our employees to better serve our clients, improving client access to insights and solutions, accelerating product development, and helping clients prepare their workforce for an AI-enabled future.

Insperity's proprietary Compass AI engine is maturing into a scalable enterprise AI platform, providing a foundation that connects data and business knowledge across the organization.

Our HR360 Agent is already helping clients and worksite employees access answers, resources, and service support more efficiently, and we are working to expand its functionality to deliver conversational reporting and faster business insights.

We plan to 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 expect this functionality combined with the expertise of our staff will reinforce the way Insperity provides sophisticated HR support to help HR360 clients succeed in a new world fueled by AI and can serve as a value driver in our discussions with clients and prospects.

We believe as our refined sales motion becomes fully adopted and confidence grows within the HR360 and HRCore sales organizations combined with the catalyst effect of HRScale and our AI initiatives, we have the opportunity for strong sales and client retention over the balance of the year.

So, we believe we are on track to achieve both of our 2026 highest priorities of margin recovery and laying the foundation for regaining growth momentum. We expect success in these two areas would lay the foundation for balancing growth and profitability in 2027 and delivering shareholder value in the years ahead.

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

Jim Allison

2026 Outlook

Thanks, Paul.

Our updated outlook for 2026 reflects our solid WSEE and financial performance in Q2, the progress of our margin recovery plan, and the expected continuation of certain operating expense savings that we experienced in Q2.

With regards to paid WSEEs, we continue to analyze and revise our strategies to achieve our margin recovery goals while also focusing on regaining WSEE growth momentum. We believe that our plan to emphasize long-term value drivers in discussions with clients and prospects could positively influence sales and retention results as we approach the fall sales and retention season. In addition, we expect net client hiring to reflect some improvement in small business economic sentiment and the hiring environment, partially offset by seasonal summer help reverting in Q3. As a result, we are now forecasting paid WSEEs in a range of 305,000 – 307,000 for the full year 2026, which represents a decrease of 1.0% to 1.6% from 2025.

Moving to margin recovery, we are pleased with the progress we have made to date, and we continue to forecast some additional improvement as we execute the plan throughout 2026. Our pricing results are progressing in line with our plan, and we continue to see that the profitability of terminating clients has been significantly lower than the profitability of those we are retaining, producing a favorable change in client mix.

With regards to operating expenses, we continue to expect year-over-year reductions throughout 2026, driven primarily by lower headcount and partially offset by some increase in marketing spend and growth in the number of Business Performance Advisors. HRScale operating expenses are expected to be generally in line with our budget.

As I mentioned earlier, our benefits costs trends have been relatively stable so far this year, but we are maintaining a wider range of potential outcomes in the second half of the year relative to our historical norms due to the elevated health care cost trends that remain in the marketplace. As a result, we are forecasting Adjusted EBITDA in a range of $185 million - $225 million for the full year 2026, an increase of 41% - 72% over 2025. Adjusted EPS is forecasted in a range of $1.88 - $2.43, an increase of 83% - 136% over 2025.

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 38.6 million for the full year.

As for Q3 2026, we expect the average number of paid worksite employees to be in a range of 305,500 – 307,500, a decline of 1.7% - 2.3% from Q3 2025. We are forecasting Adjusted EBITDA in a range of $14 million - $41 million, an increase of 40% - 310% over Q3 2025. Adjusted EPS is forecasted in a range of $(0.09) - $0.41, an increase of 55% - 305% over Q3 2025.

As many of you know, our quarterly earnings pattern is typically highest in Q1 and then declines each quarter thereafter, primarily due to seasonality related to state unemployment taxes and benefits costs. While those influences remain intact, we expect the seasonality of our 2026 quarterly earnings pattern to be less pronounced 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, while the related favorable impact on claims cost is expected to be significantly weighted toward the later quarters of the year, with the largest impact in Q4. In addition, as we execute our margin recovery plan throughout 2026, the cumulative financial impact is expected to be more pronounced in the second half of the year and provide a solid foundation heading into 2027.