

Insperity, Inc. Third Quarter 2025

Introduction

Jim Allison

Thank you. We appreciate you joining us today.

Let me begin by outlining our plan for today's call. First, I'm going to discuss the details behind our third quarter 2025 financial results and provide an update on our financial guidance for the remainder of the year.

Paul will then comment on our ongoing efforts to accelerate growth and improve profitability in 2026, including the rollout of our new HRScale solution. I will return to outline some initial thoughts regarding expected drivers of financial performance for 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.

Third Quarter 2025 Results

Our unit growth for Q3 2025 was within our forecasted range, with the average number of paid worksite employees increasing by 1.2% over Q3 2024 to 312,842. New client sales results were encouraging. While WSEEs paid from new clients in Q3 fell just short of the Q3 2024 level, our Q3 booked sales efficiency and the resulting number of accounts that are in the queue for first payroll over the next few months have increased significantly from a year ago. Client retention remains strong, averaging 99% per month and in line with prior year results. Similar to last year, the departure of seasonal summer employees caused net hiring within the client base to be negative in the 3rd quarter. The overall hiring environment continues to be challenging, and Q3 2025 activity was slightly weaker than Q3 2024.

Adjusted EPS for the quarter was \$(0.20) and Adjusted EBITDA was \$10 million. These results fell below our forecasted ranges primarily due to a further continuation of higher-than-expected benefits costs.

Gross profit per WSEE in Q3 2025 was \$208 per month, down from \$247 in Q3 of 2024, driven primarily by higher-than-expected benefits costs of \$20 million. As you may recall from last quarter's call, we had expected our benefits cost trend to taper down over the 2nd half of 2025 due to favorable demographic changes within our plan combined with the relative benefits cost patterns in the comparison period, which had been more favorable in

the first half of 2024 and resulted in higher year-over-year cost trend in the first half of 2025 that we did not view as reflective of the underlying trend for the year. Unfortunately, while we benefitted from those favorable impacts, Q3 claims data revealed that they were outpaced by higher-than-expected outpatient and inpatient utilization and pharmacy costs, including a significant increase in large claims frequency both sequentially over Q2 and also year-over-year. These factors resulted in a benefits cost trend of 9.1% for Q3 2025 over Q3 2024.

The issues that we have experienced with increased healthcare claims costs are not unique to Insperity. At a macro level, the health insurance industry has reported an unexpected rise in healthcare costs and loss ratios. From our discussions with our carriers and outside advisors, there are a number of factors driving a higher level of healthcare utilization, including the increased use of prescription drugs and outpatient procedures, the prevalence of high-cost conditions and the introduction of new higher-cost treatments and drugs. Additionally, we have recently been made aware that the use of AI tools by healthcare providers has emerged as an additional contributor to the higher cost trends, impacting everything from (1) condition diagnosis and treatment plans to (2) clinical documentation and coding for insurance billings to (3) preauthorization and appeals processing. Many insurance carriers have alluded to such issues in their comments on higher cost trends and loss ratios, and our understanding is that they are responding in a variety of ways to reduce issues around upcoding or unnecessary spending.

From what we are hearing, it is the accumulation of all these things happening at the same time that has created the unexpected increase in trend. At this point, the prevailing view in the industry is that the higher claims trend experienced in 2025 will persist in 2026.

We responded quickly to the emergence of higher-than-expected benefits costs earlier in the year by increasing our pricing targets. Over the course of the year, those costs have continued to outpace our projections, and we have revised our pricing plan accordingly. We believe that the plan we are executing remains competitive in the broader marketplace and will continue throughout 2026. This plan is focused on attracting and retaining the right clients at the right price to produce sustainable profitability at normal historical levels. To date, we believe those plans are on track, and I will provide an update later in the call.

Moving on to operating expenses, we continue to actively manage these costs below budgeted levels while continuing to invest in our strategic priorities. On a year-over-year basis, operating expenses in Q3 2025 decreased by 4%. Operating expenses declined sequentially from the 2nd quarter of 2025 by \$10 million, with the most significant reductions in Salaries and G&A costs. During the 3rd quarter, we achieved significant software development success on the HRScale platform, which met the threshold to capitalize a portion of our Workday strategic partnership costs for the first time. For Q3, we invested a total of \$17 million, of which \$11 million is included in operating expenses. This compares with \$19 million in Q3 of 2024, all of which was expensed.

Cash Flow, Liquidity and Capital Allocation

During the third 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 \$68M and repurchased 225,000 shares of stock at a cost of \$19 million. We ended the quarter with \$120 million of adjusted cash, and we had \$280 million available under our credit facility.

4th Quarter and Full Year 2025 Guidance

Now, let me provide an update to our Q4 and full-year 2025 outlook.

Given our recent sales, client retention and client net hiring results, we expect the average paid WSEEs to be in a range of 313,000 – 315,000 for the 4th quarter, an increase of 1.3% - 1.9% over Q4 2024. As a result, average paid WSEE growth for the full year is expected to be 1%.

We are forecasting full year Adjusted EPS in a range of \$0.84 to \$1.47 and adjusted EBITDA in a range of \$119 million to \$153 million.

As I mentioned earlier, our benefits cost trend over the first three quarters of the year has hovered around 9%, as favorable changes in our plan demographics and plan migration have been outpaced by increased care utilization, pharmacy costs and large claim activity. We expect our full-year benefits cost trend to remain at this elevated level.

Q4 operating expenses are expected to decline sequentially once again. As a result, full-year 2025 operating expenses are expected to be below 2024 levels by approximately 3%. For the full year, we expect the investment in our Workday strategic partnership to total approximately \$58 million, of which \$48 million would be included in operating expenses. This compares to \$57 million in 2024, all of which was expensed.

As for Q4, we are forecasting Adjusted EBITDA in a range of \$(25) million to \$9 million and Adjusted EPS in a range of \$(0.79) to \$(0.16). For purposes of adjusted EPS, we are forecasting an effective tax rate of 28% for Q4 2025. The effective tax rate on GAAP EPS could fluctuate from that based on the level of non-deductible expenses as a proportion of pre-tax income.

Looking at the big picture of 2025 at this point, we have a significant earnings shortfall from our initial budget. Nearly all of this shortfall is related to the benefits area, driven by the unexpected increase in healthcare claims costs. Other impacts, including a lower level of growth than initially forecasted, mix changes in the business and the impact of lower interest rates, have been largely offset by the management of operating expenses below budgeted levels.

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. Today my comments will focus on four important topics to frame the financial performance rebound and growth acceleration we expect in 2026 and beyond.

First, I will discuss the decisive and assertive actions we are taking to navigate the significant and unexpected step up in healthcare claim trends we have experienced this year.

Second, I will present an update and perspective regarding the official rollout of HRScale this quarter, our joint solution with Workday, that is designed to effectively enhance our PEO solution set for midmarket companies ranging from 150 to 5,000 employees. We believe the addition of this offering will position Insperity uniquely within the marketplace and serve as a new driver for large client sales and retention advancing our growth model.

Third, I will also provide an overview of our recent strong booked sales performance and the momentum driving our flagship PEO solution, HR360, which is a key contributor to our growth and integral to our upcoming year-end transition.

I will conclude my remarks with some thoughts about the next three years and the plan we are working through that we believe will allow us to return to historical key metrics in our business model.

The most urgent issue that we continue to address is the health insurance claim cost escalation. This issue has occurred across the marketplace and industry and has impacted Insperity in a severe manner over the last three quarters.

We have seen two significant negative developments in the health insurance marketplace. First the claim trend for the industry at large for 2025 is now expected to be 200 to 400 basis points higher than industry estimates at the beginning of the year. This unexpected increase that emerged during the year is significantly higher than a typical year.

Analysis of our Q3 claims data revealed our benefits cost trend has increased from our initial estimate at the beginning of the year in line with the higher trends now reported in the health insurance industry.

Secondly, the increasing adoption of AI tools by healthcare providers appears to be a recent additional factor driving higher costs across a wide range of claim categories. As Jim mentioned, we have seen many providers cite utilization and revenue increases while insurance carriers are reporting higher loss ratios and passing this higher level of claim trend on to employers

Jim has specifically addressed this claim cost escalation we have experienced in his remarks including the expected effect on Adjusted EBITDA in 2025. This factor accounts for nearly all the underperformance from our target for this key financial measure at the beginning of this year, so this is certainly the most significant challenge we are confronting.

Even though the full effect of these higher-than-expected trends has made a larger impact on our estimate for the full year than we thought last quarter, we believe the actions we have taken in response have been progressing on track to achieve a rebound in 2026.

When we saw signs of a step up in claim cost in Q1 we quickly initiated action plans to address this trend. We also adjusted these plans during the year as the trend continued to increase. To date we have had measurable success in increasing pricing appropriately with client retention remaining solid in Q3.

We believe our pricing remains competitive with the industry and with the broader health benefits marketplace for our clients and we provide plan design options and other ways for clients to mitigate these increases.

These pricing measures take time to fully take effect as we price new and renewing accounts each month in line with market trends. The initial effect of these measures began in Q3, and we expect the positive impact will continue to grow over the coming months as we complete our fall sales and renewal season.

These pricing initiatives are strategically designed to support our profitability recovery as we move into 2026. In addition, we expect the significant new agreement with United Healthcare announced today will add additional support and contribute substantially to our margin recovery.

Since the first quarter, we have focused on negotiating a revised contract with UHC to go into effect at the start of the year. We have now signed a contract extension through 2028 which addresses our key short and long-term objectives.

The contract incorporates financial terms, plan design modifications, and risk transfer alternatives, that are projected to significantly reduce Insperity claim costs and mitigate expected trends and large claim risks for the upcoming year.

Additionally, the agreement strengthens our partnership alignment through long-term, favorable administrative and risk charges and credits, as well as growth incentives. This structure and alignment of this agreement are paramount, as we expect them to enhance the financial impact in subsequent years as the business expands.

The projected immediate offset to the benefits cost trend combined with the lower large claim pooling level in 2026 presents a timely and important opportunity to reduce cost and lower risk.

When you combine the effects of these significant cost management and pricing initiatives, we believe we have the foundation for a substantial rebound of gross profit and margins in 2026 beginning in January.

The second topic I would like to discuss is the roll out of our HRScale solution underway with active co-marketing and co-selling target prospects, including demonstrations of the platform.

We are also working on deployment and enablement of beta clients, and our software development success has proven the viability of the product - a milestone which impacts accounting treatment of our investments in the platform.

This is a pivotal moment for Insperity due to the potential for HRScale to be a catalyst for growth into the future. It is important to recognize the tremendous accomplishment to reach this point in this length of time.

We signed this strategic partnership agreement with Workday at the end of January 2024, just 21 months ago. This partnership was established to bring a unique comprehensive HR solution to a large, underserved market of more than 40,000 companies employing more than 25 million employees by combining Insperity's HR service and Workday HR technology.

We identified four pillars of work to create this joint solution with the potential to be a category of one and a competitive disrupter in the marketplace. The four defined pillars included our Insperity corporate tenant, our exclusive PEO client tenant, our deployment and enablement services, and our joint go-to market plan.

This effort represented a significant financial investment and a commitment of time, effort, and resources by both partners. In our case, we estimated \$150M investment, including \$60M in each of the first two years, to build and take this joint solution to marketplace.

Following the signing of the agreement, we commenced the significant effort for this major development project, which involves integrating the client-facing Workday HR platform with our advanced Insperity HR compliance platform.

Additionally, I set aggressive internal timeline goals to achieve key milestones across the other three pillars with the emphasis on speed to market of new products. We did not share these at the time due to too many unknowns, but we believe it is important to note now so we can look at the big picture and assess how we have performed up to this point.

It is not uncommon for a significant project of this magnitude to take substantially more time and investment than initially projected to create a new product and prepare to take it to market.

The internal goal for launching the first pillar, our corporate instance of Workday was January 1, 2025; implementation was completed successfully by April 1, 2025.

We set the goal for the client tenant, for completion to initiate deployment and enablement for beta clients on July 1, 2025. The client tenant uses new functionality in the Workday solution that did not exist when we entered into the agreement, and both of our companies

had to work diligently together to create a solution that had not been built before. This milestone was achieved by October 1, 2025.

Our deployment and enablement capability is in place to allow us to bring on beta clients for a go live date in March 2026 for first payrolls in early April.

In August, our go-to-market plan was launched with our product page on the website going live, our demand generation campaign implemented, and prospect outreach underway.

Co-selling, co-marketing and co-branding is in full swing and a POD (product oriented delivery team) of sales professionals from both partners are working together every day on a team that is wholly dedicated to this solution. They are rapidly advancing the sales motion and identifying and meeting with prospects to fill the HRScale sales pipeline.

Based on our forecasted investment for the rest of the year, we expect to have achieved these milestones while staying within our original \$120 million estimated investment for the first two years.

The achievement of these initiatives within this time period and within the budget reflects the professionalism, dedication, and proficiency of both the Insperity and Workday teams. It also demonstrates the strong cultural alignment of the strategic partnership, which we expect will support the successful roll out of HRScale and positively affect our return on investment for years to come.

We expect the launch of HRScale as a significant growth catalyst for Insperity is particularly timely, given the broader macro trends currently impacting our industry. For the past two years, the labor market has posed considerable challenges for small and medium-sized businesses, which has contributed to restrained growth across the business services sector.

There is also uncertainty regarding the future impact of AI on employment, prompting companies in the HR services sector to seek a new catalyst for sustained growth. Had we not established our strategic partnership with Workday, we believe we would also be searching for such an opportunity. Instead, we believe we have our new growth driver already in place.

Now on to my third topic - our confidence in this new growth driver is growing due to recent booked sales success. In Q3, our booked HR360 sales were substantially over budget and 45% greater than in the same period last year. These strong results were driven primarily by outperformance in our mid-market and enterprise space, which is the target market for HRScale.

We sold our largest account in our history during this quarter, which is scheduled to come on HR360 in January and is planned to upgrade to HRScale by the end of their second contract year. The opportunity to even have a discovery call with this large potential client resulted from the client becoming aware of the HRScale as an Insperity Workday joint solution.

Over the last quarter we have been encouraged by prospective client's receptivity to the Insperity Workday strategic partnership in a number of ways including the ability to set appointments and nature and level of conversation.

The system and service demos to beta and prospective clients have resonated well and we are very pleased with the receptivity to the proposed value proposition. We believe the early feedback is validating our strong competitive positioning in the marketplace.

It is also compelling to see prospective clients considering two product options with the opportunity to start on HR360 with a plan to upgrade to HRScale in the future. We also believe that the availability of HRScale and HR360 at different price points will positively impact the level of sales for both solutions.

We believe our success and momentum in booked sales through the third quarter puts us in a favorable position going into our year end transition with more client worksite employees in the pipeline scheduled to become paid in January. This is also important in a year where we have higher pricing for new and renewing business which could have some impact on client retention when our priority is to see margin improvement into next year.

The last topic I would like to address today is our three-year plan we expect to finalize this quarter with the objective of returning to the targeted growth and profitability metrics of our business model.

Our historical key metrics in good times include double digit unit, revenue, and gross profit growth, combined with operating leverage to achieve Adjusted EBITDA annual growth rates north of 20%. Our work on this three-year plan includes specific initiatives designed to return our key drivers to these metrics and generate corresponding shareholder returns.

We are confident that a return to double-digit growth is possible with the implementation of our new growth driver, HRScale, even if future SMB employment gains remain modest.

We anticipate improvements in gross profit margin as we align price allocations with direct costs moving forward, and expect that the value proposition and pricing of HRScale will further support these outcomes.

We expect operating expense efficiencies and improved margins from both internal and client-facing AI initiatives. As we grow, our AI strategy is already generating efficiency gains and should help us achieve greater operating leverage.

Earlier this year, we launched a proprietary Insperity AI tool called Compass, which is already being used by our service providers. We are continuing to develop AI capabilities across our operations, including targeted and proprietary tools for things like predictive analytics and prospect scoring.

We are working to combine the speed and information reach of AI with the validation of our HR expertise to more efficiently deliver complete and accurate information to our

customers. This improves response time and enables us to focus even more on the "high-touch" nature of our customer relationships, which continues to be a strong competitive differentiator and retention driver.

In summary, we believe the elevated healthcare trend and malaise in the SMB labor market is masking significant progress we are making across the company in these areas to return to historical growth and profitability metrics. We take full responsibility for continuing to take appropriate action steps to address these issues and we believe we will see significant progress ahead.

At this point I would like to pass the call back to Jim to provide some further perspective on 2026 expectations.

Jim Allison

Thanks, Paul.

Initial Thoughts on Drivers of Financial Performance in 2026

As this year has progressed, we have worked diligently to create and execute plans aimed at generating a significant profitability rebound in 2026.

In the benefits area, we expect the elevated benefits cost trend to persist in 2026, based on input from our carriers, outside advisors and industry benchmarks. As a result, our response must remain swift and steadfast, and our focus is on both right pricing our book of business and reducing plan costs.

On the pricing side, we continue to strategically implement higher pricing targets for both new and renewing business using AI tools and revised methodologies. Our focus is to attract and retain the right clients at the right price that can produce sustainable forward-looking profitability at our normal historical levels. This process began earlier this year, is progressing according to plan, and will continue throughout 2026, consistent with what we are hearing in the broader market. Through a combination of higher pricing and the exit of lower profitability clients, we believe that we are on pace to exceed the projected benefits cost trends.

Regarding our plan costs, I am happy to report that we have successfully completed our contract negotiation with UHC and have extended our contract through 2028. The combination of cost savings from this contract and other plan design changes, both of which will be effective in January, are expected have a favorable impact of about 2% of our gross benefits costs. In addition, we plan to reduce our healthcare claims risk in 2026 by lowering our pooling level from \$1 million per member per year down to \$500,000. For clarification, the pooling level represents the maximum annual amount of claims exposure we have for any individual plan participant, which provides a measure of protection against the severity of large claims. Taken altogether, these contractual changes reflect the strategic alignment of Insperity and UHC to provide exceptional value for our clients and plan

participants, and they are foundational to both our 2026 financial performance and our long-term success.

Regarding the rollout of HRScale (i.e. the Workday strategic partnership), we expect to add clients into this solution during 2026, which is expected to incrementally impact WSEE growth and revenue as we move through the year. As the rollout plan continues, we should be in a better position to comment on client traction and revenue potential in future calls. Once we achieve go-live and a stabilization period, the level of our investment is expected to decline, and certain product development costs will be capitalizable, which we expect to positively impact operating expenses. A portion of those savings will be offset by new costs to build service capacity for the implementation and ongoing service of HRScale clients as well as Workday platform maintenance and support. Taken altogether, operating expenses associated with HRScale in 2026 are expected to be about \$15 million lower than the \$48 million estimate for 2025.

Even though we expect each of these positive contributors to be significant, we also recognize that there are likely to be a variety of other puts and takes to our financial performance. In addition, there are risks and uncertainties that could impact 2026 results, including changes in prevailing health care cost trends or plan utilization, the successful completion of our fall sales and renewals season, and more broadly, changes in the macroeconomic environment and labor market.

We will not be providing our financial outlook for 2026 until our earnings call in early February but given the significant positive contributors that we have outlined, we believe that 2026 represents an opportunity to recover a majority of the earnings shortfall we have experienced this year.