Insperity, Inc. Third Quarter 2026

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 third quarter 2026 financial results.

Paul will then comment on the progress of our margin recovery plan, the fall selling and client renewal season, and our AI strategy and initiatives. I will return to provide financial guidance for the fourth 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.

Third Quarter 2026 Results

Our third quarter results mark a key milestone in our margin recovery plan. Gross profit per worksite employee increased 8% over Q3 2025, reversing the year-over-year declines we reported throughout 2025 and into the first half of this year, driven by the cumulative impact of our pricing and client retention strategy. That improvement, together with continued operating expense discipline, produced Q3 Adjusted EPS and Adjusted EBITDA above the midpoint of our forecasted ranges and significantly improved from Q3 2025.

Third quarter Adjusted EPS was $0.22, a $0.42 per share improvement over the Adjusted loss per share of $0.20 in Q3 2025.

Adjusted EBITDA for the quarter was $31 million, an increase of 210% from Q3 2025.

The average number of paid worksite employees was 307,265 in Q3, a modest year-over-year decline of 1.8% against the backdrop of the margin recovery plan.

All three of these key metrics were above the midpoint of our forecasted ranges.

With regards to unit growth, the margin recovery plan continued to be a headwind for new client sales and client retention compared to Q3 2025, while we saw some improvement in net hiring within the client base compared to last year. Paul will provide more color around sales and retention results in a few minutes.

At the same time, the financial impact of the margin recovery plan has significantly outpaced the WSEE headwind.

Total gross profit in Q3 2026 increased by 6% to $207 million, in line with our forecast and expected seasonal pattern. Gross profit per WSEE increased by 8% to $225 per month, a significant improvement over the 1% decline reported in Q2, validating the effectiveness of our margin recovery plan. This flip to a year-over-year increase in the gross profit metrics was primarily driven by the cumulative impact of our pricing and client retention strategy.

The year-over-year increase in our pricing continued to accelerate as it has done throughout the year. Our strategy has also produced a favorable client mix change that has helped to bolster our efforts to positively impact benefits costs beyond our plan design changes and new UnitedHealthcare contract terms that took effect at the beginning of the year. For Q3, benefits costs per covered employee increased by 3.7% over Q3 2025, consistent with our expectations.

Within our gross profit results, the significant progress of the margin recovery plan was somewhat offset by a year-over-year increase in reported workers' compensation costs. While we have seen relative stability in our current period workers' compensation costs, favorable adjustments in actuarial reserves related to prior policy years declined in Q3 2026 versus Q3 2025. This impact was similar to what we experienced in Q2 and continues to reflect a market-wide increase in claim severity, with elevated healthcare cost trends being a significant contributor. We have taken, and will continue to take, appropriate pricing actions consistent with these market conditions, which we expect to persist beyond the near term.

Operating expense management is another key component of our margin recovery plan. In Q3, total operating expenses decreased by 5% to $209 million versus Q3 2025, primarily due to lower corporate staffing levels and related compensation costs. Operating expenses associated with HRScale in Q3 were generally in line with budgeted levels.

Cash Flow, Liquidity and Capital Allocation

During the third quarter, we continued to return capital to our shareholders through our regular dividend program and share repurchases. We paid $23 million in dividends and repurchased 131,000 shares of stock at a total cost of $6 million.

We ended the quarter with $119 million of adjusted cash compared to $95 million at the end of Q2.

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. We are pleased with our solid third-quarter financial results, reflecting continued progress on our top priority of 2026, margin recovery, achieving a meaningful step forward in restoring the earnings power of our business model.

We are also making early progress increasing sales and client retention activities as we launched our fall campaign. Stronger sales activity has begun to fill the pipeline to improve sales; however recent sales results continue to reflect our margin recovery priority.

Today, I'll discuss our operating progress and then turn to AI, which we believe has the potential to strengthen demand for Insperity's comprehensive HR solutions as small and midsize businesses navigate this workplace transformation.

Our strategy seeks to combine the power of AI with the experience of our HR professionals to help our clients' businesses succeed, further strengthen our offering and deepen client relationships, which we believe will drive long-term growth and shareholder value.

Coming into 2026, we established a clear sequence: recover margin, rebuild growth momentum, and position the business for a better balance of growth and profitability in 2027. Our third-quarter performance represents another important step in that direction.

As we discussed on previous calls, our margin recovery efforts have included pricing strategy, benefit plan changes, broader benefit options, and improvements in our operational processes. These actions have successfully addressed the health care cost pressure we experienced in 2025 and are expected to support a stronger economic foundation for our business going forward.

That progress has involved trade-offs. Pricing and client-selection decisions that support margin recovery can also affect new sales and client retention. Those effects remain evident in our results, which include a 2% year-over-year decline in average number of worksite employees paid per month in Q3.

Our fall sales and retention campaign is our opportunity to begin to rebuild growth momentum, and activity levels are increasing, marketing lead flow has improved, and we have a solid pipeline of mid-market HR360 and HRScale prospects.

HRScale remains on track to meet our previously stated targets, with several thousand employees currently in implementation. Offering both options, HR360 and HRScale, continues to benefit prospects and clients and supports our long-term plan for this segment.

Some new mid-market and enterprise accounts have chosen HR360 for a faster path to onboarding addressing HR service or benefits needs as a priority. However, they also plan to upgrade to HRScale when implementation can be scheduled at a later date demonstrating a long-term view of the relationship.

One of the most important leading indicators of future sales is the number of business profiles, or opportunities to bid our services we achieve each month. We are encouraged by progress in Q3 as this activity metric trended upward each month in the third quarter to a solid total for the quarter. Achieving this volume with fewer business performance advisors indicates improvement in activity per Business Performance Advisor.

Renewals are also on schedule and supporting messaging has been updated and communicated across the organization to reinforce client renewal decisions. This included providing context around the health care trend levels and actions we have taken to moderate those effects on their behalf and continue to provide comprehensive benefit plan options. We also have new AI communication and a demo video that we believe is important to emphasize the expected step up in value of our HR solutions as SMB clients face the AI challenges ahead.

However, it is still very early in the campaign, and the range of possible outcomes remains wide. Ongoing margin recovery efforts, continued price sensitivity, and market uncertainty, including uncertainty surrounding the election, remain challenges. It is too soon to draw conclusions about the campaign's ultimate sales and retention results which factors into the starting point for paid worksite employees in January.

Our objective is not simply to add volume. It is to build durable growth on sound economics while delivering the breadth, depth, and level of care clients expect from Insperity. The opportunity ahead is to preserve our margin progress while translating stronger activity into improved sales and retention as we work to balance growth and profitability in 2027.

Beyond our near-term operating priorities, AI is changing the way we think about the future of HR and the opportunity for Insperity. We believe AI is a technology innovation driving an extraordinary workplace transformation rapidly increasing the need for sophistication in the HR function in the SMB marketplace. We believe this reinforces the value of our comprehensive, deeply integrated service relationship.

AI is changing how work gets done for individuals, teams, and companywide both internally with employees and externally with customers. Business owners and managers must rethink job responsibilities, required skills, hiring needs, and how teams are organized, all of which are challenges that land in the HR department.

That creates a broad set of HR responsibilities: updating job descriptions, compensation and incentives, identifying skill gaps, supporting employee development, equipping managers, and aligning policies and practices.

AI could also change hiring patterns, workforce composition, and employment growth. We anticipate this elevated volume of HR activity, including hiring and firing, will also create additional employment related complexity, risk and stress for employers.

For an SMB with limited internal resources, the amount and speed of change can be difficult to manage alone. We believe the heightened need for HR expertise to help business owners navigate the complexity and manage the liability will increase demand for HR solutions and guidance provided by Insperity.

Our offering is not simply a collection of administrative tasks or access to software. It is an integrated combination of technology, HR expertise, personalized service, and an understanding of the client's business and people.

We believe AI can make historical and real time information more accessible to clients and service providers. Our experienced professionals help put that information in context and provide insights, and then with the benefit of their judgment, support our clients' efforts to take action.

In that sense, AI is highlighting our highest-value attributes: trust, judgment, care, and the ability to stand shoulder to shoulder with a business owner as they navigate important workforce decisions.

Our ambition extends beyond using AI within Insperity. We believe we have an opportunity to help lead the small and midsize business community through the workforce transformation that the AI era will ultimately require.

We believe that creates the possibility of a deeper strategic role with clients as they navigate change. Earning that role will require continued innovation and highlight the personal service and care that have long defined our company.

We are pursuing this AI opportunity in three connected areas: how we develop technology and services; how we work internally; and how our clients experience our solutions through AI tools we deploy.

First, we are using AI to develop technology and services more productively, deliver meaningful enhancements faster, and improve quality. Beyond making existing services more efficient, we are rethinking how technology and human expertise combine to meet client needs.

Second, we are equipping our people with better access to knowledge and tools to improve productivity and service delivery. Our proprietary AI platform provides a foundation for connecting HR and payroll expertise and business workflow processes with AI capabilities across the organization. By reducing time spent finding information and completing routine work, we aim to free our professionals to focus on where their expertise matters most to clients.

Third, we are enhancing how our clients experience our solutions. Our recently announced Insperity HR360 AI Agent represents an important step forward, making it easier for early adopter clients to find answers, navigate HR responsibilities, and access guidance informed by company-specific policies with reduced need for escalation.

We also announced capabilities under development for the HR360 AI Agent including conversational intelligence which is designed to allow business owners to ask questions in everyday language rather than having to know where to look and how to assemble relevant information and receive real time actionable insights.

The planned functionality will allow users to enter simple commands such as "show me headcount by location" or "how have our employee engagement metrics trended over time," and receive reports, graphic visualizations and contextual insights, helping leaders access information more quickly and make better-informed workforce decisions.

Our distinctive approach combines our internal AI development capabilities, extensive historical client and employee information, client-specific policies, and our HR analytics engine. Our HR professionals remain essential in helping clients interpret those insights and act on them.

Let me be clear, our message is not simply that we have introduced another technology feature. We have launched a companywide effort to help current clients and prospects understand the fundamental step-up in value our distinctive approach will provide for their businesses.

Easier access to company-specific insights, combined with experienced HR guidance, can help them make better decisions and move more quickly from information to action. We believe that combination magnifies our long-term competitive advantage and can improve the likelihood, degree, and speed of success of our clients in the SMB marketplace.

In closing, our priorities remain clear: sustain margin discipline, rebuild durable growth, and use AI to strengthen the value we deliver through HR360, HRCore, and HRScale. We believe progress on those priorities can support a better balance of growth and profitability in 2027 and long-term value creation for our shareholders.

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 Q3 results, the continued progress of our margin recovery plan, and several modest refinements to our fourth quarter assumptions. With three quarters of results behind us, we have narrowed our full-year range while maintaining the Adjusted EBITDA midpoint essentially unchanged.

With regards to paid WSEEs, we expect sequential growth for the 4th quarter to be relatively flat, as paid WSEEs from new client sales and client attrition are expected to largely offset each other. Net client hiring is expected to have a fairly small impact in Q4 as recent positive net hiring trends are expected to be offset by the reversion of seasonal employees in December at one of our larger clients. As a result, we are now forecasting paid WSEEs in a range of 306,000 – 308,000 for Q4 2026, which represents a decrease of 1.4% to 2.0% from Q4 2025. For the full year, we are forecasting a range of 305,500 – 306,000, a decrease of 1.3% - 1.5% from 2025.

Moving to margin recovery, our pricing and client retention strategy is expected to produce some additional Q4 improvement at the gross profit level, as compared to Q4 2025. As I mentioned earlier, our pricing has continued to accelerate on a year-over-year basis as we have executed the plan throughout 2026. In addition, 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 that we expect to positively influence benefits costs in comparison to Q4 2025.

With regards to operating expenses, we continue to expect a year-over-year reduction in Q4, driven primarily by a continuation of lower compensation-related costs. HRScale operating expenses are expected to be generally in line with our budget.

As a result, we are forecasting Adjusted EBITDA in a range of $24 million - $44 million for Q4 2026, compared to negative $13 million in Q4 2025.

For the full year 2026, we are forecasting $194 million - $214 million, an increase of 48% - 63% over 2025.

We expect our full year effective tax rate for Adjusted EPS purposes to be approximately 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 a result, Adjusted EPS is forecasted in a range of $0.07 - $0.42 for Q4, compared to an Adjusted loss of $0.60 per share in Q4 2025.

For the full year, we are forecasting Adjusted EPS of $1.93 - $2.28, an increase of 87% - 121% over 2025.