

Insperty, Inc. Fourth Quarter 2025

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 fourth quarter 2025 financial results.

Paul will then comment on our year-end transition, profitability recovery efforts and other key drivers in 2026, including the rollout of our new HRScale solution. I will return to provide financial guidance for the first 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.

Fourth Quarter 2025 Results

Today, we reported Adjusted EPS for the fourth quarter of \$(0.60) and Adjusted EBITDA of \$(13) million. During the quarter, we accelerated the pace of sales office consolidation, resulting in an additional operating expense of \$2.8 million. Excluding this expense, Adjusted EPS was \$(0.54) and Adjusted EBITDA was \$(11) million, near the middle of our forecasted ranges.

The average number of paid worksite employees was 312,377, an increase of 1.1% over Q4 2024. This was slightly below our forecasted range due to continued weakness and volatility in client net hiring. Net client hiring was in line with our forecast in October and December but was offset by an unexpected net reduction in November. Regarding WSEEs paid from new clients and client retention, both were generally in line with our forecast. WSEEs paid from new clients increased by 6% over the Q4 2024 level, while client retention was in line with prior year results, averaging 99% per month during Q4. Paul will discuss our year-end transition in a few minutes.

Gross profit per WSEE in Q4 2025 was \$183 per month, generally in line with our forecast. Benefits costs were within our expected range, as health care claims development related to prior periods ran out higher-than expected but were largely offset by favorable results in other benefits components. We also experienced some favorability in the workers' compensation and payroll tax areas.

Operating expenses in Q4 2025 decreased by 6% compared to Q4 2024. As I mentioned earlier, our Q4 operating expenses included \$2.8 million related to an acceleration of sales office consolidation. In Q4, we invested a total of \$15 million in HRScale, the joint solution of our Workday strategic partnership, including \$10 million in operating expenses and \$5 million in capitalized costs. This compares with \$19 million in Q4 of 2024, all of which was expensed.

Cash Flow, Liquidity and Capital Allocation

During the fourth quarter, we continued to return capital to our shareholders through our regular dividend program, paying \$22 million in dividends. For the year, we paid cash dividends of \$90 million and repurchased 232,000 shares of stock at a cost of \$19 million. We ended the quarter with \$57 million of adjusted cash.

During Q4, we also amended our credit facility, which extended the maturity date to December 15, 2028, increased our borrowing capacity from \$650 million to \$750 million, and raised our maximum leverage ratio from 3 to 3.75 times EBITDA, as defined in the agreement. As a result, at December 31, 2025, we had \$380 million dollars of available capacity under our credit facility.

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 will focus my comments on our plans to position Insperty for stability and long-term value creation coming out of the significant challenges we encountered last year.

I will begin with the outcomes of the decisive actions we carried out in the fourth quarter in response to these challenges.

Then, I will present an overview of our 2026 strategy to further enhance margin recovery and regain growth momentum in our flagship offering HR360 and to advance the roll out of HRScale.

I will conclude with some comments about the three-year plan we have initiated and our 40th anniversary we are celebrating this quarter.

Throughout 2025, Insperty encountered two macroeconomic external factors that had a considerable impact on growth and profitability. One of the factors was the ongoing uncertainty in our primary target market of small and medium-sized businesses and the corresponding employment stagnation.

The second factor was the industrywide step up in health care claim costs, which are expected to continue at an elevated level in 2026. This trend drove our benefit plan direct costs causing a significant gross profit margin squeeze.

The highlight of the fourth quarter was the achievement of our number one priority to finish our fall sales and retention campaign with measurable margin recovery. We accomplished this key objective.

As we enter 2026, we have seen a step up in several key drivers of gross profit margin that we believe positions us for a significant recovery in profitability this year.

On the growth side, we ended 2025 with solid new booked HR360 sales for the full year although our Q4 results reflected our efforts to prioritize margin recovery. New booked sales for the year came in within 2% of the prior year with 14% fewer business performance advisors and a 13% improvement in sales efficiency.

However, there were several factors that impacted our starting point for worksite employees in 2026. In Q4 the labor market continued to reflect uncertainty in the small and medium size business community at large and within our client base at Insperity. The net change in employment in the client base from hiring and layoffs was the primary reason we ended 2025 with several thousand paid worksite employees fewer than expected.

As we focused on margin recovery, we introduced new tools and processes during the fall campaign to support client selection and pricing. While we believe these steps supported our gross profit efforts, they also contributed to lower-than-expected new booked sales in November and December.

Our client retention results were also strong for the full year but less favorable for renewals processed late in the year that would be effective in early 2026. Attrition was slightly higher than expected due to our margin recovery pricing and a higher number of company initiated non-renewals, both of which contribute to profit recovery.

All these factors led to fewer paid worksite employees at the beginning of the year, which lowers our view of projected growth for 2026 by around 3%. At this point, we expect growth for the year between -1.5% to +1.5% compared to 2025.

As we transitioned into the new year, we also made a difficult but necessary decision to right size our organization to the current and future needs of the company. This came after careful review of how to strengthen the business and position the company for future growth. This realignment has been initiated and will impact approximately 4% of our non-sales staff.

So, as we enter 2026, our plan includes continuing the emphasis on margin and profit recovery and regaining our growth momentum, which we expect will be achieved through HR360 sales and retention initiatives and the roll out of HRScale.

We believe we have more opportunities to improve key drivers to gross profit as we continue our margin recovery strategy including client pricing and selection on new and renewing accounts. Approximately 60% of our current client base are yet to receive applicable pricing upon their renewal dates over the course of the year. We will also continue to approach renewals consistent with our margin recovery strategy.

Throughout the year, particularly in the fourth quarter, the challenges encountered prompted innovative thinking and the implementation of strategies that we expect will enhance sales, retention, and overall prospect and client experience.

We accelerated one of these strategies last year has resulted in the ability to quickly provide prospects with the best product option for their needs, including new client sponsored benefit plan alternatives working with the licensed brokers in our insurance agency.

These efforts led to an increase of sales of our HR360 offering without participation in our health care plan, and in many cases the clients elected a client sponsored benefit plan coordinated through our licensed brokers. As we offer these alternatives to renewing clients as well as prospects, we believe this approach will be favorable for sales and retention going forward.

Our sales convention in late January was timely, especially to reinforce value-based selling for the entire sales team and share best practices of the highest performers. We believe our HR360 sales team is reset with new tools for a solid year ahead.

We anticipate growth momentum for HR360 from the February low in paid worksite employees through year-end. This is based on historical seasonality trends, where paid worksite employees added from booked sales typically exceed attrition during this period.

Now let me update you on the roll out of HRScale and how we believe this solution helps us regain our growth momentum going forward. As a reminder, HRScale, our joint solution with Workday, is one of the most significant transformations that has occurred 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 large client sales and retention. This dramatically increases our total addressable market and advances our growth model. This solution also provides a possible new growth measure and greater visibility for future growth.

The HRScale roll out continues to be on an excellent track. We have scheduled beta clients to go live next month, and we expect they will be on the system to run payroll as of April 1st.

The pipeline of current clients wanting to upgrade to HRScale and new prospects to go straight to this solution continues to grow. Our sales motion, including demo capability and tools to communicate the value of this offering, are resonating and confirming the demand we have expected for HRScale.

Based upon the early HRScale sales activity levels with new prospects and existing clients, we expect approximately 6,000 to 8,000 paid worksite employees on HRScale by year end, with a solid queue scheduled for future deployment.

Current HR360 clients upgrading to HRScale are expected to add new revenue over time and improve retention with longer contracts but not add to paid worksite employee growth since they are already in the numbers on HR360.

New prospects signing on as HRScale clients will add revenue, both as part of the upfront deployment and enablement fees and as they add to our growth in paid worksite employees once they run their first payroll. While the deployment and enablement period is currently six months, we expect to reduce this period over time as our teams gain experience.

All HRScale clients are added for first payroll at the beginning of a quarter. This allows us to sell accounts and schedule their start in a queue and provide visibility into paid worksite employee growth.

We are proactively marketing HRScale to all our clients with at least 150 employees throughout this year and believe that the value of this offering can have a positive effect on year-end retention in 2026.

We believe that the combination of sold HRScale accounts to new clients and retention of larger HR360 accounts may provide a step up into 2027 to launch year two of our three-year plan I will discuss more in a moment.

HRScale also represents an opportunity to extend the Insperity brand and widen the sales funnel for prospects for our flagship comprehensive HR solution HR360 and our traditional employment offering HRCore.

In summary, Insperity is entering 2026 with stronger alignment, clearer priorities, and the most competitive product portfolio of our history, which we believe positions us well to regain our growth momentum.

Last quarter I mentioned our work on a three-year plan with the objective of returning to the targeted growth and profitability key metrics of our business model. This plan includes specific initiatives designed to return our key drivers to these metrics and generate corresponding exceptional shareholder returns.

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%.

After 2025 this seems like a considerable challenge, however we have developed a three-year plan that we believe provides a clear strategy for margin recovery in year one, balanced growth and profitability in year two and in year three high-performance key metrics.

It is also important to note that we are focused on building substantial improvement in adjusted EBITDA in subsequent years like we expect in 2026.

In just under a month, Insperty will mark 40 years of fulfilling our mission to help businesses succeed so communities prosper. Reaching this milestone, having pioneered and led a new industry over four decades, is truly a significant achievement.

The number forty is often associated with a time of testing, refinement, transformation, and a new beginning moving up from one level to the next. This certainly applies to our 40th year at Insperty. 2025 presented significant unexpected challenges to overcome to pass the test of time.

We have always been a values based, culture driven, people centric company aspiring to an exceptional standard of excellence. We believe Insperty has been in a category of one in the HR marketplace differentiated by the breadth and depth of the services provided and the level of care of our small and medium size business clients, worksite employees and their families.

We view this as a rock-solid foundation upon which we will build our future along with many other pillars of our success from the past. Our 40th year was exceptionally challenging, but we believe our resilience and determination have us on a solid path for margin recovery, in 2026, and a return to higher growth, profitability and high-performance key metrics as we move ahead into the next forty years.

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.

Full Year 2025 Results and 2026 Outlook

Thanks, Paul.

By all accounts, 2025 was a challenging year. We began the year with early growth momentum and a backdrop of improved small business economic sentiment. That was offset quickly by significant headwinds due to a rapid escalation in benefits cost trends that were experienced throughout the health insurance industry, as well as the macroeconomic impact of tariff and other governmental policies.

These factors significantly impacted our results. For the year, the average number of paid WSEEs increased 1% to just over 310,000. Adjusted EBITDA declined 51% to \$131 million, and Adjusted EPS declined 71% to \$1.03.

Throughout the year, we took significant steps designed to limit the financial impact of these challenges and set the stage for profitability recovery in 2026. We increased our

pricing targets and adjusted our pricing and client selection tools and strategies. We renegotiated our contract with UnitedHealthcare, reduced our pooling level to \$500,000 per member per year from \$1 million, and implemented plan design changes, all of which are effective as of January 2026. We also managed our cash operating expenses under budget by \$20 million.

At the same time, we continued to advance our Workday strategic partnership, investing \$59 million to bring Insperity HRScale to market, of which \$48 million was expensed and \$11 million was capitalized. We built out the technology platform and the service delivery playbooks. We initiated the implementation of our beta clients with a planned go-live in March. We launched our joint go-to-market plan to attract and sell new clients into the solution.

As we reflect on 2025, we faced the challenges head on with resiliency and resolve. We have made a lot of progress, and we remain steadfast in confronting the challenges ahead. As Paul discussed, our fall campaign and year-end transition resulted in a lower starting point in paid WSEEs. Given our recent sales, client retention and client net hiring results, we expect our average paid WSEEs for the 1st quarter to be in a range of 303,000 – 305,000, a decline of 0.3% - 1.0% from Q1 2025.

For the full year 2026, we are forecasting our average paid WSEEs in a range from -1.5% to +1.5%.

With regards to gross profit, we do not expect a full return to pre-2025 gross profit per WSEE levels in 2026. Rather, our forecast includes a significant improvement in key profitability drivers to start the year and continuing improvement throughout the year.

Based on our year-end transition results, we believe that our pricing and client selection strategies are working as planned. We have seen a step up in pricing in January 2026 in both new and renewing accounts. In addition, the profitability of the clients that terminated in our year-end transition was significantly lower than the clients that remain active, which we expect to provide a meaningful boost in our profitability. Also, we believe that the quality of the new clients that have started is improved from a demographic, risk and pricing perspective.

We expect that the combination of these favorable impacts, along with our plan design changes and our renegotiated contract with UHC, provide the drivers for gross profit recovery in 2026. While health care cost trends remain at elevated levels, we are pulling many levers that we believe will either positively impact this trend through cost reductions or increase our pricing.

The progress we have made so far is significant, and we intend to continue executing these pricing and client selection strategies throughout 2026. We believe that our employee benefits solutions remain competitive in the marketplace, and we can supplement those solutions as appropriate with client-sponsored benefit offerings through our insurance agency. Our plan is to provide the most effective option to each client and prospect,

increasing our value proposition while also attracting and retaining the right clients at the right price to produce sustainable profitability at normal historical levels.

Regarding workers' compensation costs, we have historically been successful in managing claims to completion at a level below actuarial estimates, which has provided additional gross profit. We are taking a conservative approach to forecasting in this area relative to our history, consistent with our normal practice.

With regards to operating expenses, we expect another year-over-year reduction in 2026 driven primarily by a reduced headcount as well as lower HRScale investment costs. We are planning to utilize a portion of those expected savings to ramp up HRScale service capacity, increase marketing spend, and grow the number of Business Performance Advisors, along with other inflationary cost increases.

In conjunction with our year-end transition, we analyzed our organization and have eliminated positions representing about 4% of our non-sales headcount. This effort, which we believe will be substantially completed in Q1, is expected to reduce our operating expenses by \$20 million in 2026, excluding the impact of a \$9 million restructuring charge. With regards to HRScale, our investment costs are expected to be near the Q4 2025 levels in the first two quarters of 2026 as we work through the payroll go-live and stabilization period. Beyond that, the investment costs are expected to drop to a much lower level consistent with a normal product roadmap. Throughout 2026, we expect our HRScale-related service costs to ramp up as we reallocate and add more resources to onboard and service clients. All in, we expect our 2026 HRScale-related operating expenses to be about \$12 million less than 2025 levels.

Interest income is expected to be about \$7 million lower than 2025 levels due to reduced interest rates and cash balances.

The effective income tax rate for purposes of Adjusted EPS is projected to be 34% for the full year 2026. The effective tax rate for GAAP EPS could fluctuate from that based on the level of non-deductible expenses as a proportion of pre-tax income.

We plan to exclude the \$9 million restructuring charge from our Adjusted EBITDA and Adjusted EPS calculations. As a result, we are forecasting full year Adjusted EBITDA in a range of \$170 million to \$230 million, an increase of 30% - 76%. For Adjusted EPS, we are forecasting a range of \$1.69 to \$2.72, an increase of 64% - 164%.

As for Q1, we are forecasting Adjusted EBITDA in a range of \$81 million to \$111 million and Adjusted EPS in a range of \$1.03 to \$1.50.