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HURN - Q4 2012 Huron Consulting Group Inc. Earnings Conference Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Huron Consulting Group's webcast to discuss financial results for the fourth quarter and full-year 2012. At this time, all conference call lines are in a listen-only mode. Later on, we will conduct a question and answer session for conference call participants, and instructions will follow at that time. As a reminder, this conference call is being recorded. Before we begin, I would like to point all of you to the disclosure at the end of the Company's news release for information about any forward-looking statements that may be made or discussed on this call.

The news release is posted on Huron's website. Please review that information along with the filings with the SEC for disclosure factors that may impact subjects discussed in this afternoon's webcast. The Company will be discussing one or more non-GAAP financial measures. Please look at the earnings release and on Huron's website for all the disclosures required by the SEC, including reconciliation to the most comparable GAAP numbers. Now, I'll turn the call over Jim Roth, Chief Executive Officer and President of Huron Consulting Group. Mr. Roth, please go ahead.

Jim Roth - *Huron Consulting Group Inc - CEO and President*

Good afternoon and welcome to Huron Consulting Group's fourth-quarter and year-end 2012 earnings call. With me today are Mark Hussey, our Executive Vice President and Chief Financial Officer, and Patty Olsen, our Vice President of Human Resources. Huron finished the year on a very strong note, reflecting continued solid demand in our core businesses. As we had anticipated early in 2012, the second half of the year was much stronger than the first. We are pleased with our fourth-quarter results and encouraged by the extent to which strong market conditions will likely lead to growth of our businesses in 2013.

I will now take a few minutes to talk about each of the practices, and then Mark will provide more details on the financials. I will start with Health and Education Consulting segment. For well over a year, we have been talking about the extraordinary pressures facing our hospital and university clients. I am not going to reiterate characteristics of the market forces that are creating demand for our services, other than to say that in both the Healthcare and Education markets, the public pressure for improved quality at reduced costs gets louder and more urgent with each passing day. In Healthcare and Education, we are helping our clients evaluate the best strategic options to navigate the rapidly changing arena and, we are also helping them operationally achieve their cost and quality objectives. From our perspective, over the past year, the risk profile for both hospitals and universities has increased, and the need for change has become more acute.

Within the Legal Consulting segment, we continued to make solid progress in achieving our goal of broadening our client base and creating cost-efficient services with which to serve the Legal market. During the fourth quarter, we continued the expansion of our global sales organization, added several new marquee clients, and introduced our integrated analytics service offering. The Legal market, similar to Health and Education, is also going through a significant change. The most notable attributes of the changes are the continued acceptance of predictive coding among the courts, the proliferation and complexity of data in global corporations, and the need for corporate law departments to achieve greater efficiency and effectiveness. Finally, our Financial Consulting segment, while still below prior-year results, continued to build its pipeline through some key wins of larger engagements that we expect will improve growth and profitability in 2013.

As our press release indicated, we are going to be reporting separate segment information for our Healthcare and Education and Life Sciences practices beginning in 2013. We believe that the added visibility into these two businesses will be useful to investors and other stakeholders. Despite the reporting change, the two segments will continue to collaborate strongly in the marketplace, most notably with our academic medical center clients. As part of the added visibility that the split segments will offer, effective in 2013, we will also revert to providing annual guidance on contingent revenue in the Healthcare segment. While this guidance won't alleviate potential delays in recognizing contingent revenue, we are hopeful that it will provide investors with greater insight into our expectations for such revenue. As I have said on previous calls, I believe that over time, contingent revenue will decline as a percentage of total revenue in the Healthcare segment, largely attributable to the growth of our clinical services practice, which tends not to be as conducive to contingent arrangements.

Now, let me turn our thoughts to the current year. We have issued annual guidance, revenue guidance, in the range of $655 million to $685 million for 2013. While we are hopeful that this guidance ends up being conservative, we also remain cognizant of the fact that some of our revenue, particularly in the Huron Healthcare segment, can be unpredictable from quarter to quarter. As the year plays out, we will obviously get more visibility to the size and timing of our revenue stream.

As we see things now, we believe that 2013 will have less volatility quarter to quarter as compared to 2012, and correspondingly, less reliance on a large second half to achieve our annual revenue guidance. As always, time will tell. In the interim, we are very encouraged by the strength of all of our practices, as we enter 2013. Now, let me turn it over to Mark for a more detailed discussion of our fourth-quarter results and 2013 guidance and modeling assumptions. Mark?

Mark Hussey - *Huron Consulting Group Inc - EVP & CFO*

Thank you, Jim, and good afternoon everyone. Consistent with our past practice, I will be discussing our financial results in the context of continuing operations. I will also be discussing non-GAAP financial measures, including EBITDA, adjusted EBITDA, adjusted net income and adjusted EPS. Our press release, website and 10-K each have reconciliations of these non-GAAP measures to the most comparable GAAP measures, along with a discussion of why management uses these non-GAAP measures. We posted record revenues of $180.8 million for the fourth quarter of 2012, which was an increase of 10.9% compared to the same quarter of 2011, and sequentially, an increase of 11.7% over Q3 of 2012. Operating income was $34.5 million in the fourth quarter of 2011, an increase of 85.4% over the same period of 2011.

Adjusted EBITDA, which excludes a number of items that are listed in our press release, was $41 million in the fourth quarter of 2012, an increase of 46.5% over Q4 of 2011. Adjusted EBITDA margin improved significantly from 17.2% in Q4 2011, to 22.7% in Q4 of 2012. Net income from continuing operations was $18.6 million in the fourth quarter of 2012, or $0.83 per diluted share, more than double the results in the comparable quarter of 2011. Adjusted non-GAAP net income from continuing operations was $20.2 million, or $0.90 per diluted share in Q4 2012, representing an increase of greater than 75% compared to the fourth quarter of 2011. In Q4 of 2012, we recognized income tax expense of $14 million on income from continuing operations of $32.6 million, resulting in an effective tax rate of 43%. This rate is higher than the statutory rate, primarily due to certain nondeductible items and foreign losses with no related tax benefit. The effective tax rate in Q4 of 2011 was 53%, again, higher than the statutory rate, primarily due to certain foreign losses with no related tax benefit and increased to the valuation allowance in a $1 million SEC settlement charge that was not tax-deductible.

Now let's look at how each of our operating segments performed during the quarter. The Health and Education Consulting segment generated 69% of total company revenues during the fourth quarter of 2012. This segment posted revenues of $124.1 million for the fourth quarter of 2012, a 19.5% increase from the comparable quarter in 2011. Both our Healthcare and Education practices within this segment had their best revenue quarter ever during Q4. The solid performance in this segment reflected an increase in overall demand for our services.

The number of our full-time billable consultants in the segment reached 1,216 at the end of 2012, a 16.3% increase from the end of 2011. Higher contingencies which totaled $32.3 million for the quarter also contributed to this quarter's strong performance. The Health and Education Consulting segment's operating income margin increased to 41.1%, up from 33.6% in the same quarter last year. The increase in margin was primarily due to lower technology spending and lower salaries and related expense as a percentage of revenue.

Our Legal Consulting segment generated 28% of total company revenues during the fourth quarter of 2012. This segment posted revenues of $51.5 million in Q4 2012, essentially flat with the comparable quarter in 2011. You may recall that we faced a tough comparison to the year ago quarter which benefited from a few substantially large engagements that drove significant growth. Our Advisory business experienced revenue growth of 10% over Q4 of 2011, while our Document Review and E-Discovery businesses experienced a slight decline. The operating income margin for our Legal Consulting segment was 21% for Q4 2012, slightly lower than the 21.7% in Q4 of 2011, primarily due to higher salaries and related expenses as we continue to develop our global sales organization.

During Q4 2012, our Financial Consulting segment generated 3% of total company revenues, which was $5.2 million in the fourth quarter of 2012, down from $7.7 million in the same quarter of 2011. Segment operating income for Financial Consulting was about $200,000 in Q4 2012, compared to $1.4 million in the same quarter of 2011. The decrease primarily reflects reduced demand for our Restructuring and Turnaround services. As I mentioned during our last conference call, we're undertaking several initiatives intended to improve this segment's financial performance. We believe that the Financial Consulting segment will again positively contribute in Huron's growth in 2013, with a strong pipeline to start the year.

Now, turning to cash flow in our balance sheet, DSO for the fourth quarter came in at 60 days, compared with 73 days reported at the end of Q3 of 2012. Cash flow from operations was $63 million for the quarter, and $106 million for the year. Net of capital expenditures and earn out payments, we generated cash flows totaling $53 million. We ended the year with no borrowings under our line of credit and with the term loan balance of $192.5 million. Cash balances as of year-end 2012 were approximately $25 million, compared to $5 million at the end of 2011.

Now, let me summarize the guidance that was included in the press release. For full year 2013, we anticipate revenues before reimbursable expenses in the range of $655 million to $685 million, EBITDA in a range of $118.5 million to $127 million, and adjusted EBITDA in the range $120.5 million to $129 million. Net income in the range of $50.5 million to $55.5 million, and adjusted non-GAAP net income in a range of $55 million to $60 million. Finally, GAAP EPS between $2.25 and $2.45, while adjusted non-GAAP EPS guidance is between $2.45 and $2.65. Based on our existing engagements and the pipeline of new proposal opportunities currently in front of us, as well as the current economic environment which Jim discussed earlier, the revenue range that we are projecting reflects a 4% to 9% increase from 2012 revenue from continuing operations. With respect to adjusted EBITDA, net income and EPS, there are several items which you will need to consider when reconciling these non-GAAP measures to comparable GAAP measures. Reconciliations schedules that we included in our press release will help walk you through these reconciliations.

Now, here are a few other modeling assumptions. Assuming the midpoint of our guidance range, we expect cash flow from operations of approximately $100 million, average utilization rates of approximately 75% for the full year, average hourly bill rates are expected to be approximately $230 for the full-year, and full-time billable consultant headcount will average approximately 1450 professionals for the year, and average full-time equivalents for the year will be about 1250. Weighted average diluted share counts for 2013 are estimated to be approximately $22.7 million, and finally, with respect to taxes, you should assume an effective annual tax rate of approximately 43%. We are also going to provide our views of the expected range of contingent fees for the year. For 2013, we expect the range of contingent fees to be between $80 million and $90 million.

Finally, as Jim mentioned in his remarks, effective at the beginning of this year, the Health and Education Consulting segment will become two separate segments, Huron Healthcare and Huron Education and Life Sciences. The Legal Consulting segment will now be referred to as Huron Legal and the Financial Consulting segment will now be referred to as Huron Financial. The structure of the Legal Consulting and Financial Consulting segments remains unchanged. In addition, certain immaterial practices which were historically part of our Health and Education Consulting segment will be combined and disclosed in an All Other category. We will be reporting our financial results under this segment structure beginning with Q1 of 2013. I will note that we intend to file an 8-K with quarterly data from 2011 and 2012 under the new segment structure shortly after our 10-K filing. Thanks everyone, and now I'd like to open up the call to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Tim McHugh, William Blair & Company.

Tim McHugh - *William Blair & Company - Analyst*

First, I guess I just wanted to look for some more color on your favorite topic, contingent fees. So, did you end up recognizing some of the fees that you thought would get pushed out in the fourth quarter? Or did some of that activity still get pushed out? And secondly, the guidance for next year, in terms of contingent fees, and I guess given your comments about first half of the year, not being any different than the second half, it seems like you are assuming a relatively more conservative amount of contingent fees next year. I guess, given that some piece had been expected to get pushed out this year, I'm surprised the guidance is for relatively flat or down contingent fees next year. Any more color on the activity behind that would be helpful.

Jim Roth - *Huron Consulting Group Inc - CEO and President*

Tim, this is Jim. A couple of comments. Maybe I will take the second one first. I think we said there would be a little bit more balance between the years -- between the quarters and -- we are not going to rely entirely on the second half of the year to kind of get to where we need to be from a guidance perspective. So I don't think it will be incredibly balanced -- I mean I don't think it will be incredibly even, but there will be far less volatility among the quarters and even among the halves than we saw in 2012. So, I do think that the second half of the year will probably show more contingent revenue than the first, I suspect. But again, we are subject to the normal caveats of uncertainty over timing.

But, getting back to your first point, we did, in fact, recognize some of the contingent revenues in the fourth quarter. Some of that we thought might've actually spilled over to the first quarter, we were able to recognize some. But, as always, there's a variety of things that are taking place. Some did spill into Q1, not a huge amount. We also had some contingent revenues that started the quarter contingent, that ended fixed, because we made some contractual changes. This is consistent with kind of the way things operate within the practice on a normal basis. That is, there is movement among all these things.

That's why we get a little reluctant to be putting our hats too much on the contingent portion of this. We feel very comfortable with the revenue amounts that we are going to be disclosing for the Healthcare segment. We feel a little bit less comfortable as to the timing, as always, on the contingent revenues and just for all the reasons that we talked about. So, it was a mix in terms of what we recognized in the fourth quarter. There was a little spillage. There will be a little spillage into the first quarter. But, I think probably the most important thing is that I do think we expect to see a little bit less volatility among the quarters and the halves next year, and I think it's important also to point out that we do think that over time, certainly, our hope and expectation is that contingent revenue as a percentage of total Healthcare revenue will continue to go down.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And, is there anything to read through in terms of the risk of kind of some of these larger engagements starting to come to an end or to their later stages? Then, the risk that contingent fees in the second half of this year -- they wouldn't be as large because you have to start back up on new larger engagements. Is there any risk to some of these large engagements now starting to reach the tail end? Is that in any way kind of reflected in what you are expecting?

Mark Hussey - *Huron Consulting Group Inc - EVP & CFO*

Tim, I don't think there's much risk of that at all. We have got a pretty healthy pipeline going right now. We are not seeing any -- at least on the radar screen right now -- we are not seeing any significant or material disruptions as a result of a large job stopping and waiting to have something else pick up. We have a pretty steady flow of opportunities and engagements going right now.

Tim McHugh - *William Blair & Company - Analyst*

Okay. Then, Mark, maybe just -- the contingent fee discussion was helpful. I guess you said you expect growth in financial consulting. Is there anything you can offer in terms of color in terms of what you're expecting for maybe Legal and Health -- Legal and Education and maybe Health without the contingent fees?

Mark Hussey - *Huron Consulting Group Inc - EVP & CFO*

Sure. Yes. I think all of the practices, again, if you look across individually, I think -- let me circle back first with financial consulting since you mentioned that one first. The way we are seeing the year shape up, on a percentage basis, it's going to look a lot better than it did this year. I'm not sure the percentages mean a lot. We would love to see us start to recover toward where we've been historically on this practice. I think we expect to be off to a good start. But, this will actually be a contributor in 2013 versus a detractor.

I think when you look at the other practices, let's take Healthcare next, I'd say our expectation is for upper single digit type revenue increases. As Jim alluded to, with contingent in the range that we estimated, it is a little bit different mix than it was a year ago. Reading into your question a little bit, a year ago, we saw start up of some larger engagements that had a higher percentage of contingent that ended up pushing back in the second half of the year, and just to be clear, what we are saying is, we don't expect that to be our situation in 2013. With respect to Legal consulting, we certainly have a carryover from the acquisition that we had done middle of last year on AdamsGrayson and then, overall, we would expect kind of mid-single digits, lower single-digit to mid-single-digit growth on Legal Consulting. Finally, with respect to Education, we see quite strong growth there. We should be high single-digit, maybe even low double-digit on Education.

Jim Roth - *Huron Consulting Group Inc - CEO and President*

I think this was the third quarter or maybe the fourth quarter in a row that Higher Education has had its record quarter. So, it just continues to be expanding the services that it's offering and doing very well in the marketplace.

Tim McHugh - *William Blair & Company - Analyst*

Just to clarify, I'm sorry, on Legal, with the low single-digit to mid-single-digit, was that just the Legal Consulting side that you said? Or the overall Legal segment?

Mark Hussey - *Huron Consulting Group Inc - EVP & CFO*

The overall Legal segment. Again, we historically have been a little bit conservative out of the gate because we don't have the visibility on E-Discovery. But, we would say the market in general, we think it's going to be just fine in 2013 overall for the full-year.

Tim McHugh - *William Blair & Company - Analyst*

And that was low to mid-single digits including AdamsGrayson?

Mark Hussey - *Huron Consulting Group Inc - EVP & CFO*

Yes.

Tim McHugh - *William Blair & Company - Analyst*

Okay. All right. Thank you.

Operator

Paul Ginocchio, Deutsche bank.

Paul Ginocchio - *Deutsche Bank - Analyst*

I was wondering if you could just give us the revenue for 2012 for the All Other and the Education Life Sciences divisions, just so we can get a kind of feel for it.

Mark Hussey - *Huron Consulting Group Inc - EVP & CFO*

Paul, just given that we haven't filed the 8-K yet, I can't do that at this point. But as soon as we file it, I will absolutely get it to you.

Paul Ginocchio - *Deutsche Bank - Analyst*

Great, then just back to sort of maybe what Tim was trying to get at. Your head count is up 15% at year-end and it's been pretty steady growth at mid-teens throughout 2012. Then, once you take out AdamsGrayson, your guidance is sort of let's call it 3% to 7%. Are you planning on slowing down hiring? How do we kind of square the 15% headcount growth, 16% headcount growth with 3% to 7% organic revenue growth for 2013?

Mark Hussey - *Huron Consulting Group Inc - EVP & CFO*

Well, I think there's a couple of things going on there. First of all, you will see that the leverage model really went up dramatically in 2012 from where it's been. Most of the hiring was done kind of at the manager or below type levels. So, in that context, it may not translate as exactly into the revenue picture. I would expect in 2013, it will be a little bit more balanced over time. Again, we are kind of hiring into expected demand as well. So, I think over time, it will get back into balance for the long-term. Jim, you want to add any comments to that?

Jim Roth - *Huron Consulting Group Inc - CEO and President*

Yes. I think the leverage model has changed, and we also -- we continue to have different areas of growth in our business. For example, one that we don't provide details on but in Higher Education, for example, we are doing a fair amount of hiring in our tech areas where we are anticipating some pretty decent growth in that area. When we hire for that area, we've got to get people in, we've got to train them. The training takes a while, and then we typically will put them on assignments at reduced cost for a period of time while they are getting on-site training.

So, part of the buildup you are seeing is really, I think it's reflective of growth that we expect to be in the future. So, some of this stuff is preparing for late '13 and beyond, where we think there is going to be fairly solid demand. So, that's part of what we are seeing. That's why I say that if you look at just the current hiring rates, you try to match them to the current revenue. You don't always get a match, but we are anticipating future growth across all the business segments. That's why it's a little bit hard to reconcile.

Paul Ginocchio - *Deutsche Bank - Analyst*

Okay. I'm sure I know the answer, but you've got approval for this Washington DC Hospital contract I guess it was yesterday at UMC. I would assume that's already in your guidance?

Mark Hussey - *Huron Consulting Group Inc - EVP & CFO*

Yes. It is in our guidance.

Paul Ginocchio - *Deutsche Bank - Analyst*

Thank you.

Operator

Dan Leben, Robert W. Baird.

Dan Leben - *Robert W. Baird & Company, Inc. - Analyst*

In the Legal segment, could you just talk about the drivers behind the sequential growth, the big step up there in the fourth quarter? How much of that was AdamsGrayson versus just organic improvements on the E-Discovery side?

Mark Hussey - *Huron Consulting Group Inc - EVP & CFO*

Sure. If you look at AdamsGrayson, certainly it was a good chunk of that. If I look at the Advisory segment, it was a little bit down sequentially. But again, AdamsGrayson was picking up really the difference. So, the growth was pretty much driven by AdamsGrayson. Because again, just keep in mind it was a very tough comparison in the year ago quarter. Dan, was that what you are asking? Or was it sequential?

Dan Leben - *Robert W. Baird & Company, Inc. - Analyst*

I was actually looking for sequential. It was up $5 million, over $5 million sequentially.

Mark Hussey - *Huron Consulting Group Inc - EVP & CFO*

That was really, if you remember in Q3, we had a little bit of a dip there in the middle of the quarter in Discovery. So, that picked right back up and then the rest is AdamsGrayson.

Dan Leben - *Robert W. Baird & Company, Inc. - Analyst*

Okay. And then, just the visibility you have on those projects, could you talk about some of the nature of the projects that helped drive the increase?

Jim Roth - *Huron Consulting Group Inc - CEO and President*

I'm not sure, Dan, this is Jim. I'm not sure we had any change in the makeup of the composition of the kinds of projects that we have. These are -- this is the hardest business, typically, for us to forecast, simply because our visibility is so low. The advisory piece is a little bit, a portion of Legal is a little bit easier for us to forecast. But, I think that on the Discovery side, we are cautious in terms of our growth rates, just because we've always had some larger projects and they can come and go relatively quickly. There's really nothing that's changed about the composition of that segment in '13 as compared to '12. I don't know if that's answering your question, but --

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Dan Leben - *Robert W. Baird & Company, Inc. - Analyst*

No, that's helpful. Just on the cost side, the cost of revenue jumped up pretty good sequentially. Again, kind of help us understand, AdamsGrayson versus just the hiring and if there was any kind of fourth quarter comp catch-up on hitting the numbers late in the year.

Jim Roth - *Huron Consulting Group Inc - CEO and President*

Well, I know one of the reasons for the cost side picking up was that we, as we've been saying for a while, we've been trying to diversify our client base, and our method for doing that is to continue to expand our global sales organization. I think that's where you see some of the increased cost come up. We've been hiring into that organization. It's already demonstrating some real good sales, let alone opportunities for us to continue to diversify. I think that's where you saw some of the cost pickup in that segment. We are hoping that's going to get back to more normal levels or even better levels in 2013.

Mark Hussey - *Huron Consulting Group Inc - EVP & CFO*

Dan, the other piece to that, is really on our bonus accruals. As we finish the year on a stronger note, sequentially, if you remember in Q3 with the adjustment and guidance, there was some reduction. So, relatively speaking, Q3 was light on bonus expense where Q4 was much heavier.

Dan Leben - *Robert W. Baird & Company, Inc. - Analyst*

Great. Thanks guys.

Operator

Tobey Sommer, SunTrust.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

I was wondering if you could comment about what your backlog and visibility is, compared to this time last year when we were talking about 2012 guidance. I guess, specifically, I'd like you to comment on Healthcare and Higher Ed backlog.

Jim Roth - *Huron Consulting Group Inc - CEO and President*

Tobey, this is Jim. I think our visibility is better than it was last year. We spent a lot of time this year in preparing the 2013 budget. We spent a lot of time with the practices, making certain that we understood how we were going to turn the corner into 2013, and as part -- our method of doing that was really to go back and look at assumptions about backlog, both hard and soft and really trying to get a better understanding of how we are going to get out of the gate in 2013. I think our visibility this year really for all of the practices, probably is better individually and collectively than it was last year.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Just as a follow-up, kind of touch on a theme that has already been bantered around a bit. With a better backlog and given the hiring patterns, how do we reconcile the deceleration in headcount growth, as we look at '13? Is the recruiting market getting more challenging? Just any additional color you could provide would be helpful.

Jim Roth - *Huron Consulting Group Inc - CEO and President*

Well, the recruiting market is getting more challenging. I think as the economy has picked up a little bit, it's gotten more challenging. It's interesting. On the one hand, it's more challenging. There is more competition, particularly in Healthcare. At the same token, we've had a tremendous amount of interest in Huron from people that are working in other firms, particularly other Healthcare firms. So, for us, it works out pretty well.

I think that's partly a reflection of our brand and the collaborative nature of our culture here. But, I think what we are doing is, we are going -- we've got decent visibility, certainly going through most of the first part of the year, and I think we are just going to be conservative about our hiring for the latter part, until we get more visibility. Which, frankly will be rolling out over the next couple of months or so. It's not as though we have to wait till July to sort out what we want to do. We are not having trouble identifying people and getting people to join our businesses. We are just being cautious and conservative, in terms of how aggressively we are actually hiring.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Thank you. Just two more questions for me and I'll get back in the queue. One housekeeping one. I don't know if you gave a CapEx assumption for this year, but if you could, that would be great. Then, I was hoping you could also comment within the Legal -- Huron Legal, I think you have launched a new service, and I was hoping you could provide some more color on what that could do to the business

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Mark Hussey - *Huron Consulting Group Inc - EVP & CFO*

Sure. The CapEx assumption for the year is approximately $24 million. Then, with respect to integrated analytics, Jim, you want to tell him?

Jim Roth - *Huron Consulting Group Inc - CEO and President*

Yes, we had kind of a soft launch for the integrated analytics back in October. We had a harder launch over Legal Tech last month. But, we had said even last October that we expect most of the -- that the integrated analytics would really begin to pick up probably much more so in the second half of this year. So, we really had no expectations for it to be picking up now. We are continuing to talk about it with clients. They are getting increasingly comfortable with it. There continues to be movement in the courts in terms of increased acceptability. I think we are still on target towards having more visibility and acceptance of this toward the second half of this year.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Thank you.

Operator

Joseph Foresi, Janney.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

I was wondering if you could talk first a little bit about the pipeline in Healthcare and Education versus last year. I know you talked a little bit about the visibility being better. But how is the pipeline in that business year-over-year? Have you seen any changes in either pricing and/or the size or timing of engagements?

Jim Roth - *Huron Consulting Group Inc - CEO and President*

Joe, I will answer that a couple of ways. In terms of the pipeline, in my introductory comments, I mentioned that the pressure for change is acute, I think, in the Health and Education segments. I think our activity and our backlog is reflective of that right now. I've been consulting for 32 years or so, and this is probably the period of time where the change is so -- not only great, but it's also so uncertain. It's creating a lot of challenges for our clients.

So, I think we happen to be very well-positioned to address those and I think -- I take a lot of comfort not just in the quantity of the clients that are entering our backlog, but also the nature of the work that's being done. The nature of the work in Healthcare and in Education Life Sciences is really expanding, and we are doing more and more work for those kinds of clients. That combination tells me that they are increasingly comfortable with our ability to provide assistance to them on a whole wide array of strategic and operational issues. That's exactly where we want to be. So, the backlog is very strong, as strong as it's been.

In terms of pricing and timing, we are not really seeing any -- we are seeing a little bit more competition on the pricing side, but it doesn't -- it's not really at the point where it's having any kind of measurable difference at this stage, I would say. In the timing, I think, on a case-by-case basis, because of the nature of the changes that need to take place, whether they be cost -based or whether they're strategic or whether they're revenue based, the work that we are doing continues to be fairly invasive, and what happens is, I think it takes a little bit more time for the clients to get to the point where organizationally, internally, from their end, that they are ready to actually do some of this work. All that is factored into our guidance. In fact, that's partly a little bit why we are being conservative on that, is that we are very confident on the demand. We get a little bit more uncertain on the timing. That's where I think we have taken this conservative stance in terms of guidance and that we are just going to let things play out. What gives me a lot of comfort is a number of opportunities that have arisen where we are in very serious -- we are very seriously being considered to help on a variety of revenue, expense and strategic issues both in Healthcare and Education.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Got it. So, on the conservative note, are you sort of thinking about what the experience is with the volatility and the numbers last year? Clearly, you were thinking about that when you broke up the segments, which is very helpful. But, you are trying to -- how would you characterize the conservativeness and the numbers? What thought process did you add outside of giving the guidance number and developing the numbers that maybe -- wasn't there last year or has changed?

Jim Roth - *Huron Consulting Group Inc - CEO and President*

Well, Joe, as we have found, not just in 2012, but even in prior years, a lot of stuff can happen. I think what we are just going to kind of let this year play itself out. We certainly can and vision that this guidance is conservative, but we don't want to get ahead of ourselves and indicate that it's going to be more of a certainty. I think we will get increasing confidence as the quarters and the months play out. That's really what we're doing right now. Our total focus is just stay in the market and be as responsive as we can. As we see constantly, any effort that we have, whether it takes a month or whether it takes 18 months to deliver our value, it's the value that we are delivering in the marketplace that actually helps us sell and make the rest of our revenue stream more predictable.

We had an instance recently where we had a client, a hospital client, that told us that they wanted help on the cost side of things, on the performance improvement side of things and they wanted to go fixed-price. The reason they wanted to do that is they checked out with a lot of our places where we were doing work, and they came away convinced that we would get the results that they were looking for, so they didn't want to get into a contingent arrangement. It's those kinds of activities that give us such a great reputation in the marketplace. If we just do our work that we create the value, a lot of other things take care of themselves. As it relates to our guidance, we're just going to let this year kind of play out a little bit. But going into the year, we are pretty confident that we will have a strong year and that we are going to be -- that our opportunities in the marketplace will be very strong, very solid.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Great. We appreciate the thoughtfulness. Any color you can give us across any of your businesses, in regards to any large contracts that could potentially end and/or be renewed? I'm thinking about Legal, as well. Anything specific that the investor base should be aware of heading into that year?

Jim Roth - *Huron Consulting Group Inc - CEO and President*

I think -- the only ones -- when we sit back, this has always been the case. The only ones that really have -- I think any project can end quickly. But, there's really no history of that, with the only exception being in Legal. I think there, on some of the Discovery sides, where you could have a litigation that get settled or an investigation that ends, and that's why, in part, why our guidance is probably -- at least our thoughts in Legal is probably the most conservative when Mark was talking about the growth rates. We are just trying to anticipate that things could happen that are largely out of our control.

So, I think any real exposure that we have for something ending quickly is probably limited to Legal. The financial, Huron financial, when we are working on a bankruptcy or reorganization, again, things can happen quickly there, as well. But, it's relatively small, and I don't think it will have as much of an impact. I think if you're going to worry about things, we would worry about them in Legal. I've always considered that to be our highest beta practice because of the reason you are raising right now.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

The last question for me -- as you think about the business heading into next year, it seems like you've -- that you are devoting resources to at least two or three of these different pieces or practices. Can you talk a little bit about first, is there any acquisition activity that you are thinking about for next year? Any hires? Maybe you could just describe for us the methodology or thought behind the investment schedule for next year and where you are looking to add capabilities and what's in the guidance from that side?

Mark Hussey - *Huron Consulting Group Inc - EVP & CFO*

Joe, this is Mark. I would say that each of our practices, except for financial consulting, have varying opportunities that they are looking at. They all have a very active M&A pipeline. I would characterize those as generally speaking, talking to acquisitions like the one we announced this morning, to help us expand an existing capability or maybe an adjacency to existing service lines that we have. I believe that 2013 will continue to be a very active year for us, in terms of M&A activity. You see opportunities in the marketplace and hopefully, we continue to see values that we think make sense from an overall return standpoint. So, with the strength of the balance sheet that we have right now, we are less worried about the allocation, at least for right now, just based on the fact that these have been mainly in that tuck-in kind of range.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Great. Thank you.

Operator

(Operator Instructions)

Bill Sutherland, Northland Capital Markets

Bill Sutherland - *Northland Capital Markets - Analyst*

Most of mine have been asked. But, I have one clarification and then just one additional color. Clarification is in Legal. I'm a little confused on the Legal advisory line in Q4 and the sequential significant down tick sequentially. Whether that was related to the strength -- I mean, I'm sorry, unless my model's not correct, that's the way it looks. I'm just looking for color there. Thanks.

Mark Hussey - *Huron Consulting Group Inc - EVP & CFO*

Sequentially, Bill, the Q3 was a very strong quarter for the Legal advisory practice. So, just sequentially, they came back down from their peak. Overall, they had a terrific year. Their best year since 2008. We continue to see lots of opportunities within there. You probably saw the announcement we made about a group hire essentially from the capstone group. So, we continue to see the opportunities and want to build out those capabilities. Really, you just have sequentially a little bit tougher comparison.

Bill Sutherland - *Northland Capital Markets - Analyst*

Okay. I don't mean to make too much of it. Then, I'd be interested to hear little more color on the direction, or the drivers, of the technology part of your Education practice, as it sounds like from Jim, that it's heading into '13 with a lot of good momentum. What are you responding to in the market that's making that happen? Thanks.

Jim Roth - *Huron Consulting Group Inc - CEO and President*

Bill, the technology -- it's always been a pretty good-sized part of that practice, and the technology focus has been and will continue to be, in part, around our -- I would characterize the kind of technology we do. We provide assistance on a broader ERP and large administrative systems within the University and hospital markets, primarily financial and HR. We also, obviously, with our quick and other services, we have a very strong presence in the research administration arena, as well. So, it's really going to be in those two. It's administrative and it's research. That the gist -- that the lion's share of what we do. We also do work with budgeting models and other things, technology wise. But, research and administrative functions are really the focus of our technology practice within the Education practice.

Bill Sutherland - *Northland Capital Markets - Analyst*

Do you feel, Jim, that you are riding the wave? Or have you really taken your sales efforts up a notch?

Jim Roth - *Huron Consulting Group Inc - CEO and President*

I feel like I'm riding a wave for 15 years. I don't know -- I think -- I think this is a tough time to be in -- for it to be a Higher Education client. There's a lot of crosswinds for our clients, and it's really, really interesting to see the kinds of projects that we are getting. There are very strategic, very, very strategic and central to the future of where these organizations are going to be. I'm talking about some very well-regarded internationally known institutions that are kind of looking at their future and figuring out what we need to do and that's -- we are right square in the middle of doing that for a lot of our clients. If it's a wave that we are riding, it's going to be a long wave I think.

Bill Sutherland - *Northland Capital Markets - Analyst*

Great. Thanks guys.

Operator

Randall Reece, Avondale Partners.

Randall Reece - *Avondale Partners - Analyst*

Just taking apart your guidance. It implies 18.4% to 18.8% adjusted EBITDA margin. Which is somewhat higher, possibly, year-over-year, flat to up. I was wondering if you could break down your expectations between gross margin and SG&A in that guidance.

Mark Hussey - *Huron Consulting Group Inc - EVP & CFO*

Sure Randy, this is Mark. Our goal, and this is true just in general on SG&A, as we continue to keep those expenses as flat as we possibly can. That said, there's really two kinds of SG&A. One is corporate overhead, and the other one is really indirect expenditures within our practices. Often times, the indirect expenditures within the practices are in the form of investments for expanding capabilities or for just enhancing. So, I would say the majority of our spend increase in this coming year on that side, is in the form of specific investments around opportunities in the practices and at the corporate level, around supporting the overall size of the Corporation. So, things like recruiting, etcetera, where you need to bring people in and there's an additional cost to doing that.

Randall Reece - *Avondale Partners - Analyst*

Okay. Are there differences in the -- in your expectations for margin leverage across the practices this year?

Mark Hussey - *Huron Consulting Group Inc - EVP & CFO*

If I look -- yes, there's definitely differences in margin expectations. I would say, generally speaking, we are always looking to maintain or improve margins. The pricing side of things is relatively stable, but not really conducive to increases. So, you've got to basically drive margins through productivity, better utilization or improving your leverage model from a cost perspective. Or, just leveraging your overall corporate SG&A. In general, depending on the practice that you're looking at, to the extent that some have a little bit higher investment, there is slight differences in margins.

Randall Reece - *Avondale Partners - Analyst*

If I back the contingent fees out of the Healthcare business, it looks like your core consulting billing rate improved quite a bit in the second half of the year versus the first. If you just kind of averaged it out for the year, it was pretty flat year-over-year. First of all, I'm wondering about that increase through the year. Second of all, I'm wondering about future expectations.

Jim Roth - *Huron Consulting Group Inc - CEO and President*

Randy, this is Jim. I'll take the first part of that, at least in terms of where the billing rate to variations in it. One of the things that's really moves that billing rate around dramatically -- there's actually two things that move that billing rate around dramatically. One of them is, when contingent rates are either higher or lower in the current quarter. The second thing which has a material -- can have a material impact of the billing rate, is the number of assessments that we are doing in a given quarter. Because, when we are doing assessments, we are basically billing at cost.

So, if we were doing nothing but assessments, you would see a very, very low billing rate presumably followed by much higher billing rates. So, that's why quarter to quarter is kind of hard to look at that rate. Even looking at the first quarter through the end of the year, it's not -- I wish it was a more predictable data point from which to begin to project things out. I would say, at this point, we are probably not going to expect much of a difference in that rate in 2013. Probably for some of the same reasons we have right now.

There's a little bit of pricing pressure, all of which has been considered in our guidance. We are just not going to go back in at this stage and predict that we are going to have material increase in pricing. On top of that, we are still doing a fairly healthy amount of assessments that -- some of the assessments we are doing today, undoubtedly are going to begin to generate revenue, some in '13, but some also in '14. Again, it's just hard to match. As much as we'd like to do it, and I'm sure you'd like to do it as well, it's hard to match the quarterly billing rates with revenue generation.

Randall Reece - *Avondale Partners - Analyst*

When I look at the history of your revenue per FTE in Legal, which is where the FTE revenue was most significant, it looks like there is a down trend over time. I'm wondering how much there really is versus other factors like acquisition that might be affecting things.

Jim Roth - *Huron Consulting Group Inc - CEO and President*

I think, Randy, in Legal, I think the biggest thing that's contributing to the drop-off in billing rates is the increase in leverage model which has been substantial. That-- that's why we say -- it's not a great thing to look at in isolation. Because, we could -- you could be having lower billing rates. For example, in Higher Education, you have lower billing rates but then you've got higher margins. So, you kind of have to look at the whole picture, which includes the leverage model, to really get a sense as to what's going on. The billing rate is a factor we look at, but it's not the most reliable one.

Randall Reece - *Avondale Partners - Analyst*

Thank you very much.

Operator

Tim McHugh, William Blair.

Tim McHugh - *William Blair & Company - Analyst*

My question got asked. We can wrap it up. Thanks.

Operator

Tobey Sommer, SunTrust.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

My question has been answered. Thank you.

Operator

Mr. Roth, we have concluded the allotted time for the call. I'd like to turn the conference back over to you.

Jim Roth - *Huron Consulting Group Inc - CEO and President*

Okay. Thanks everyone for spending time with us this afternoon. We look forward to seeing you -- speaking with you, again in April when we announce our first quarter results. Good evening.

Operator

That concludes today's conference call. Thank you everyone for your participation. Have a great day.
