Insperity, Inc.(NSP)

$53.00 (As of 05/05/20)

Price Target (6-12 Months): **$56.00**

Long Term: 6-12 Months | **Zacks Recommendation:** Neutral

(Since: 04/02/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months | **Zacks Rank:** (1-5) 4-Sell

Zacks Style Scores: VGM:A

Value: A | Growth: A | Momentum: A

Summary

Insperity remains well poised to benefit from the booming professional employer organization industry. The company's top-line continues to benefit from an increase in average number of worksite employees paid per month. Its consistency in rewarding shareholders through dividend payments and share buybacks boost investors' confidence and positively impact earnings per share. On the flip side, the company continues to grapple with rising operating expenses due to heavy investment in growth, technology, product and service offerings. The company's earnings are highly seasonal in nature due to changing trends in medical claims costs and payroll taxes. Operation in a highly fragmented and competitive PEO industry remains a concern. Partly due to these headwinds, the company's shares have declined significantly over the past year.

Price, Consensus & Surprise

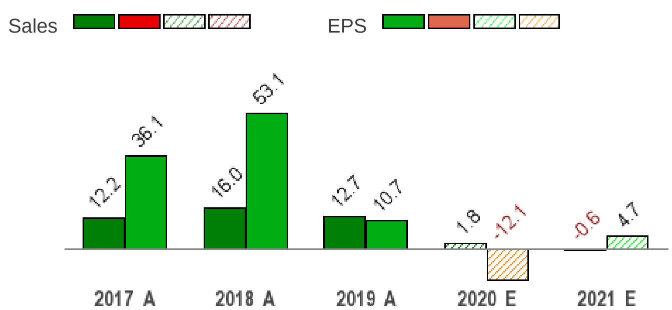
Data Overview

52 Week High-Low	**$144.92 - $22.59**
20 Day Average Volume (sh)	**508,813**
Market Cap	**$2.1 B**
YTD Price Change	**-38.4%**
Beta	**1.70**
Dividend / Div Yld	**$1.60 / 3.0%**
Industry	**Staffing Firms**
Zacks Industry Rank	**Bottom 8% (233 out of 253)**

Last EPS Surprise	**5.6%**
Last Sales Surprise	**1.8%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**08/03/2020**
Earnings ESP	**0.0%**

P/E TTM	**13.8**
P/E F1	**14.5**
PEG F1	**1.0**
P/S TTM	**0.5**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,334 E	1,209 E	1,196 E	1,232 E	4,366 E
2020	1,229 A	1,066 E	1,043 E	1,074 E	4,391 E
2019	1,153 A	1,043 A	1,043 A	1,075 A	4,315 A

EPS Estimates

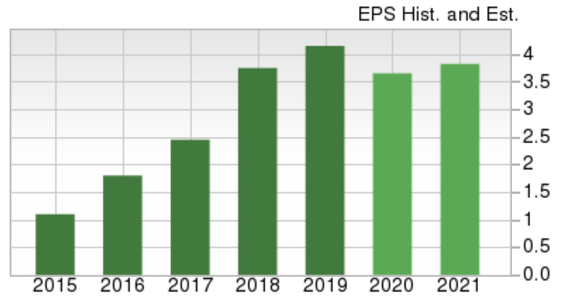
	Q1	Q2	Q3	Q4	Annual*
2021	$1.70 E	$0.82 E	$0.87 E	$0.70 E	$3.82 E
2020	$1.70 A	$0.72 E	$0.75 E	$0.57 E	$3.65 E
2019	$1.98 A	$0.83 A	$0.75 A	$0.57 A	$4.15 A

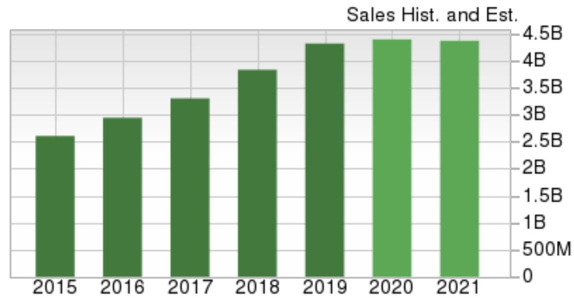
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/05/2020. The reports text is as of 05/06/2020.

Overview

Insperity, Inc. provides an array of human resources ("HR") and business solutions designed to help improve business performance. Since its formation in 1986, the company has evolved from being solely a professional employer organization ("PEO") to a comprehensive business performance solutions provider.





The company offers its most comprehensive HR services offerings through its Workforce Optimization ® and Workforce Synchronization solutions (together, "PEO HR Outsourcing solutions"). Insperity's PEO HR Outsourcing solutions encompasses a broad range of human resources functions, including payroll and employment administration, employee benefits, workers' compensation, government compliance, performance management, and training and development services, along with the company's cloud-based human capital management platform, Insperity Premier solution. Workforce Optimization solution is Insperity's most comprehensive HR outsourcing solution and is its primary offering. Workforce Synchronization solution, which is generally offered only to middle market client segment, is a lower cost offering with a typically longer commitment that includes the same compliance and administrative services as the Workforce Optimization solution and allows those clients to select, for an additional fee, from the strategic HR products and organizational development services that are included with our Workforce Optimization solution.

Additionally, the company offers Workforce Acceleration, a comprehensive human capital management and payroll service solution. The company also provides multiple other business performance solutions which includes time and attendance, performance management, organizational planning, recruiting services, employment screening, expense management services, retirement services and insurance services, most of which are offered as a cloud-based software solution. These other products and services are offered separately or along with the company's PEO HR Outsourcing solutions or its Workforce Acceleration solution.

With $4.31 billion revenues in 2019, Insperity operates in 73 offices throughout the United States. It serves more than 100,000 businesses with over 2 million employees through its business performance solutions.

Reasons To Buy:

> Insperity's top-line benefits from average number of worksite employees paid per month

▲ Insperity looks strong on the back of a booming **professional employer organization** (“PEO”) industry. It is an integrated human resources and business solutions provider. The company offers a comprehensive suite of HR services solutions through PEO services known as Workforce Optimization and Workforce Synchronization solutions. With the help of these solutions, Insperity serves small and medium-sized businesses in selected markets throughout the United States. In 2018, Insperity’s PEO solutions revenues increased 16% year over year. Apart from PEO services, Insperity is also focusing on its Workforce Administration solution that provides human capital management and payroll services solution. By implementing Workforce Administration as the prime element of its next five-year plan, the company plans to offer the same as the most-integrated traditional employment solution in the market. Insperity has ample growth opportunities arising from Workforce Administration and Workforce Optimization.

▲ Insperity’s **top-line growth** is directly proportional to the rise in average number of worksite employees paid per month. In 2019, total revenues of $4.31 billion increased 12.7% year over year on the back of 13% increase in average number of worksite employees (WSEEs) paid per month. Average number of worksite employees paid per month was 235,547 at the end of 2019. In 2018, revenues of $3.83 billion rose 16% year over year, driven by a 14.5% increase in average number of worksite employees paid per month. Average number of worksite employees paid per month was 209,123 in 2018. Worksite employee growth is being driven by strength across sales, higher client retention and rise in net hiring of worksite employees by the company’s client base.

▲ Insperity's total debt at the end of first-quarter 2020 was $369.4 million, up from $269.4 million at the end of the prior quarter. The company’s cash and cash equivalent balance of $404.7 million at the end of the first quarter was above this debt level, underscoring that the company **has enough cash to meet this debt burden**.

▲ We are also impressed with Insperity’s consistent efforts to **reward its shareholders**. During 2019, Insperity repurchased 2.1 million shares for $203 million and paid dividends totaling $48.6 million. In 2018, the company repurchased almost 1,198,000 shares for $113.3 million and paid dividends totaling $33.4 million. In 2017 and 2016, the company paid dividends of $65.8 million (inclusive of a special cash dividend of $41.7 million paid in fourth-quarter 2017) and $20.6 million, respectively. The company repurchased shares worth $38.7 million in 2017 and $31.7 million in 2016. Such moves indicate Insperity’s commitment to create value for shareholders and underline its confidence in business.

Reasons To Sell:

- Insperity operates in a **highly fragmented and competitive PEO industry**. Competition in the PEO industry persists mainly in terms of quality of services offered, coupled with benefits associated with packaging and pricing. Additionally, the PEO industry is exposed to relatively low level of market penetration. Also, PEO's are heavily dependent on climatic conditions and market segments of the areas in which they operate. Insperity primarily competes with the PEO divisions of large business services companies such as Automatic Data Processing, Inc. and Paychex, Inc., other national PEOs such as TriNet Group, Inc., payroll processors and human resources consultants, human resources technology solution companies, and large regional PEOs in certain areas of the country. Going forward, competition is expected to intensify as PEOs continue to expand nationally.

Insperity's operation in a highly fragmented and competitive PEO industry remians a concern.

- Insperity is seeing **increase in expenses** as it continues to invest in growth, technology and product and service offerings. During 2019, adjusted operating expenses of $546.30 million increased 10.7% year over year. The same rose 12% year over year in 2018, 14.5% in 2017 and 6.9% in 2016. Hence, the bottom line is likely to remain under pressure going forward. This may weigh on its share price which has declined 54.8% over the past year compared with 35.6% decline of the industry it belongs to.

- Insperity's earnings are **highly seasonal in nature** due to changing trends in medical claims costs and payroll taxes. Medical claims costs tend to rise throughout the year, with the highest costs incurred in the fourth quarter. Such high costs negatively impact Insperity's fourth-quarter earnings. With most of the worksite employees' medical plan deductibles being met by the fourth quarter, the company's liability increases with respect to those claims. Payroll taxes and associated billings are evaluated on the basis of an employee's annual taxable wage base. The annual payroll tax wages are usually met in the first two quarters of every year depending on the employee's compensation levels. Additionally, the company has to bear other expenses in the form of health-insurance coverages and workers' compensation costs.

Last Earnings Report

Insperity Surpasses Q1 Earnings and Revenue Estimates

Quarter Ending	03/2020
Report Date	May 04, 2020
Sales Surprise	1.79%
EPS Surprise	5.59%
Quarterly EPS	1.70
Annual EPS (TTM)	3.85

Insperity reported solid first-quarter 2020 results, wherein both earnings and revenues surpassed the Zacks Consensus Estimate.

Adjusted earnings of $1.70 per share beat the consensus mark by 5.6% but decreased 14.1% year over year. The reported figure matched the higher end of the guided range of $1.61-$1.70.

Revenues of $1.23 billion outpaced the consensus estimate by 1.8% and increased 6.6% year over year on the back of a 5.5% rise in average number of worksite employees (WSEEs) paid per month. Average number of WSEEs paid per month was 238,014 at the end of the reported quarter.

The company witnessed a higher-than-expected level of WSEEs paid from new sales origination in the quarter with the successful extension of the fall sales campaign. This was partially offset by lower growth in client base.

Operating Results

Gross profit of $234.02 million increased 3.2% from the year-ago quarter on the back of favorable impact of benefits and workers' compensation programs. Gross margin of 19% declined from 19.7% in the year-ago quarter. Gross profit per worksite employee per month decreased 2.1% year over year to $328.

Adjusted EBITDA was down 0.2% year over year to $101.25 million. Adjusted EBITDA margin of 8.2% declined from 8.8% in the year-ago quarter. Adjusted EBITDA per worksite employee per month decreased 5.3% to $142.

Operating expenses increased 5.3% year over year to $148.80 million on the back of continued growth-related investments. Operating expenses per worksite employee per month decreased 0.5% to $208.

Operating income decreased 0.3% year over year to $85.22 million. Operating income per worksite employee per month decreased 5.6% to $119.

Balance Sheet & Cash Flow

Insperity exited first-quarter 2020 with adjusted cash, cash equivalents and marketable securities of $166.89 million compared with $107.91 million at the end of the prior quarter. Long-term debt amounted to $369.40 million compared with $269.40 million at the end of the previous quarter.

The company repurchased 878,000 of its shares for $61 million and paid $16 million in cash dividends during the reported quarter. Capital expenditures totaled $16 million.

Q2 Guidance

For second-quarter 2020, Insperity projects adjusted earnings in the range of $1.02-$1.29 per share, indicating an increase of 23-55%. Adjusted EBITDA is anticipated between $65 million and $79 million, indicating an increase of 15-39%. Average WSEEs is expected in the range of 220,400-229,700.

2020 Guidance

For 2020, Insperity lowered its guidance for adjusted EPS, adjusted EBITDA and average WSEs. The company projects adjusted earnings in the band of $3.19-$3.86 compared with the prior guidance of $3.73-$4.16 per share. Adjusted EBITDA is anticipated at $215-$250 million compared with the prior-guided range of $250-$274 million. Average WSEEs are expected in the range of 221,400-233,200 compared with the prior guidance of 249,700-254,400.

Recent News

On **Apr 13, 2020**, Insperity announced changes to its Recruiting Services program as part of the company's efforts to help small- and medium-sized businesses amid the coronavirus-induced tepid business scenario.

On **Mar 26, 2020**, Insperity announced that it has formed a task force to help small and medium-sized businesses maintain operations during the coronavirus-induced weak business conditions. Known as the Insperity Business Continuity Support Team, it includes staffs from different disciplines including human resources, finance and regulatory.

On **Feb 25, 2020**, Insperity announced the opening of its new district office in Salt Lake City. Corbitt Mizell has been appointed as the district manager of the Salt Lake City office.

On **Feb 20, 2020**, Insperity announced that its board of directors has declared a dividend hike of 33%, thereby raising the quarterly cash dividend from 30 cents per share to 40 cents. The dividend will be paid out on Mar 19, 2020 to all stockholders of record as of Mar 5, 2020.

On **Feb 19, 2020**, Insperity announced the opening of its new district office in Providence, Rhode Island. John Kelly has been promoted to district manager of the Providence office.

Valuation

Insperity shares are down 38.4% in the year-to-date period and 54.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 31.8% and 11.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 35.6% and 4.7%, respectively.

The S&P 500 index is down 10.9% in the year-to-date period and 0.7% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 8.67X, which compares to 4.94X for the Zacks sub-industry, 10.9X for the Zacks sector and 10.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.46X and as low as 4.01X, with a 5-year median of 12.81X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $56.00 price target reflects 15.08X forward 12-month earnings.

The table below shows summary valuation data for NSP

Valuation Multiples - NSP					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	8.67	4.94	10.9	10.51
	5-Year High	26.46	9.76	13.37	12.86
	5-Year Low	4.01	3.81	8.53	8.28
	5-Year Median	12.81	7.54	10.46	10.77
P/E F 12M	Current	14.28	13.68	26.65	20.63
	5-Year High	35.30	17.07	26.65	20.63
	5-Year Low	7.59	8.43	18.68	15.19
	5-Year Median	21.83	14.09	20.56	17.44
P/S F12M	Current	0.47	0.33	3.74	3.23
	5-Year High	1.29	0.55	3.94	3.44
	5-Year Low	0.22	0.24	3.05	2.54
	5-Year Median	0.55	0.44	3.57	3.01

As of 05/05/2020

Industry Analysis **Zacks Industry Rank:** Bottom 8% (233 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Cross Country Healthcare, Inc. **(CCRN)**	Neutral	3
Kelly Services, Inc. **(KELYA)**	Neutral	3
TrueBlue, Inc. **(TBI)**	Neutral	4
BG Staffing Inc **(BGSF)**	Underperform	4
Kforce, Inc. **(KFRC)**	Underperform	5
Korn/Ferry International **(KFY)**	Underperform	5
ManpowerGroup Inc. **(MAN)**	Underperform	5
Robert Half International Inc. **(RHI)**	Underperform	4

Industry Comparison Industry: Staffing Firms

	NSP	X Industry	S&P 500	KELYA	MAN	RHI
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Underperform
Zacks Rank (Short Term)	4	-	-	3	5	4
VGM Score	A	-	-	A	B	B
Market Cap	2.05 B	531.78 M	19.65 B	541.38 M	4.08 B	5.08 B
# of Analysts	4	2	14	1	5	7
Dividend Yield	3.02%	1.44%	2.18%	2.17%	3.14%	3.07%
Value Score	A	-	-	A	C	C
Cash/Price	0.25	0.06	0.06	0.04	0.27	0.05
EV/EBITDA	8.74	6.66	11.77	3.45	5.94	7.25
PEG Ratio	0.94	2.90	2.49	NA	17.21	6.98
Price/Book (P/B)	NA	1.39	2.64	0.49	1.54	4.50
Price/Cash Flow (P/CF)	11.82	6.79	10.48	3.88	7.78	9.83
P/E (F1)	14.15	16.09	19.10	6.75	25.13	18.63
Price/Sales (P/S)	0.47	0.33	2.00	0.10	0.20	0.83
Earnings Yield	6.89%	5.92%	4.99%	14.81%	3.97%	5.37%
Debt/Equity	-111.60	0.46	0.74	0.07	0.50	0.18
Cash Flow ($/share)	4.48	2.17	7.01	3.57	8.93	4.51
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	43.42%	10.00%	10.87%	21.91%	9.83%	10.16%
Proj. EPS Growth (F1/F0)	-11.99%	-35.68%	-9.07%	-5.09%	-62.90%	-38.94%
Curr. Cash Flow Growth	9.10%	1.20%	5.88%	20.28%	-21.23%	3.72%
Hist. Cash Flow Growth (3-5 yrs)	27.33%	14.32%	8.55%	21.37%	0.59%	8.05%
Current Ratio	1.21	1.89	1.24	1.62	1.49	1.76
Debt/Capital	98.51%	32.37%	44.07%	6.20%	33.21%	15.34%
Net Margin	3.12%	2.18%	11.00%	-1.20%	2.02%	7.11%
Return on Equity	310.00%	13.37%	16.39%	6.35%	15.12%	38.67%
Sales/Assets	3.18	2.10	0.55	2.14	2.29	2.68
Proj. Sales Growth (F1/F0)	1.77%	-2.81%	-2.17%	0.00%	-19.11%	-14.39%
Momentum Score	A	-	-	A	B	D
Daily Price Chg	7.70%	0.34%	0.74%	1.39%	-0.09%	0.34%
1 Week Price Chg	16.59%	4.32%	0.53%	11.22%	2.40%	0.73%
4 Week Price Chg	45.21%	7.78%	6.47%	7.04%	17.55%	10.43%
12 Week Price Chg	-40.50%	-24.69%	-20.68%	-22.33%	-25.08%	-26.09%
52 Week Price Chg	-54.83%	-33.76%	-10.95%	-45.32%	-25.55%	-25.33%
20 Day Average Volume	508,813	161,057	2,492,530	216,446	598,297	1,701,306
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-7.39%	0.00%	-23.97%	-24.12%
(F1) EPS Est 12 week change	-25.81%	-41.92%	-14.21%	6.22%	-63.30%	-42.36%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-13.52%	0.00%	-92.88%	-52.64%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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