

Insperty, Inc.(NSP)

\$86.62 (As of 01/07/20)

Price Target (6-12 Months): **\$95.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/06/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: D

Summary

Insperty 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 its shareholders through dividend payments and share repurchases boost investors' confidence and positively impact earnings per share. On the flip side, shares of Insperty have underperformed the industry over the past year, primarily owing to the reduced guidance for th full year. The company's operation in a highly fragmented and competitive PEO industry remains a concern. Its earnings are highly seasonal in nature due to changing trends in medical claims costs and payroll taxes. Rising expenses due to investment in growth, technology, product and service offerings is a concern.

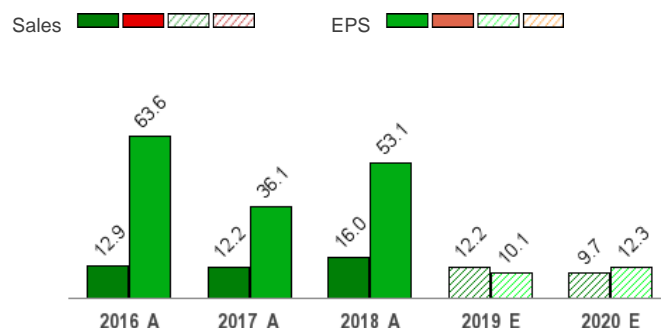
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$144.92 - \$67.06
20 Day Average Volume (sh)	491,810
Market Cap	\$3.5 B
YTD Price Change	0.7%
Beta	0.95
Dividend / Div Yld	\$1.20 / 1.4%
Industry	Staffing Firms
Zacks Industry Rank	Top 41% (103 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-25.7%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/10/2020
Earnings ESP	0.0%
P/E TTM	20.4
P/E F1	18.7
PEG F1	1.0
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,272 E	1,142 E	1,135 E	1,164 E	4,713 E
2019	1,153 A	1,043 A	1,043 A	1,058 E	4,297 E
2018	1,014 A	922 A	925 A	967 A	3,829 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.77 E	\$0.86 E	\$1.12 E	\$1.02 E	\$4.64 E
2019	\$1.98 A	\$0.83 A	\$0.75 A	\$0.55 E	\$4.13 E
2018	\$1.41 A	\$0.68 A	\$0.96 A	\$0.69 A	\$3.75 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 01/07/2020. The reports text is as of 01/08/2020.

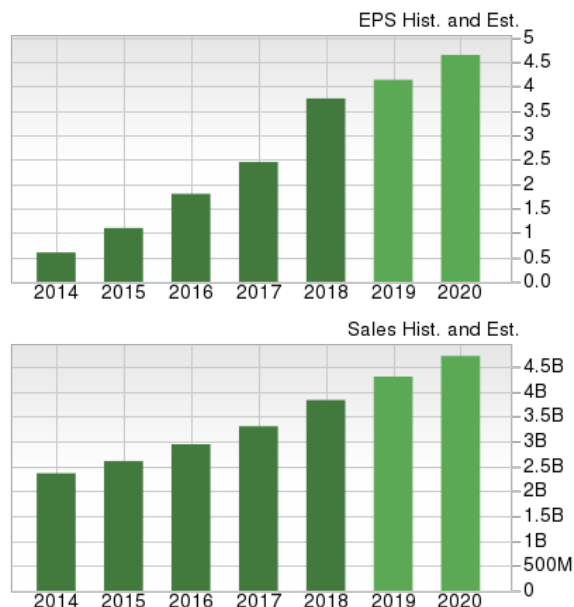
Overview

Insperty, 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”). Insperty’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, Insperty Premier solution. Workforce Optimization solution is Insperty’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 \$3.83 billion revenues in 2018, Insperty 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:

- ▲ The **staffing industry** is currently benefiting from economic strength and stability. There is plenty of room for growth for Insperity in the United States in the near to mid-term as the demand environment remains strong. While the economy continues to create new jobs despite a record low jobless rate, a tight labor market is compelling companies to pay higher to attract and retain employees. Also, there are ample opportunities for the company in emerging markets as penetration rates are still well below global standards.
- ▲ 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 the first nine months of 2019, total revenues of \$3.24 billion increased 13.2% year over year on the back of 13.6% increase in average number of worksite employees (WSEEs) paid per month. Average number of worksite employees paid per month was 232,825 at the end of the first nine months 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.
- ▲ We are also impressed with Insperity's consistent efforts to **reward its shareholders**. During the first nine months of 2019, Insperity repurchased 1,481,000 shares for \$153.7 million and paid dividends totaling \$36.8 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. These shareholder-friendly initiatives not only instill investors' confidence but also positively impact earnings per share.

Insperity's top-line is being benefited from rise in average number of worksite employees paid per month.

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 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.
- ▼ Insperity is seeing **increase in expenses** as it continues to invest in growth, technology and product and service offerings. During the first nine months of 2019, adjusted operating expenses of \$412.08 million increased 13% 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.
- ▼ Insperity's shares have declined 7.7% over the past year, underperforming the industry's 4.5% rally. The **underperformance** partly reflects reduced guidance for the full year. The company now projects adjusted earnings in the band of \$4.08-\$4.20 per share (indicating growth of 9-12%) compared with the previously guided range of \$4.59-\$4.74 (which suggested growth of 22-26%). Adjusted EBITDA is now anticipated to grow 3-6% to a range of \$247-\$253 million compared with the previously guided range of \$278-\$286 million (which indicated 16-19% growth). Average WSEEs are expected to grow 12.7-13% to a range of 235,700-236,300 compared with the previously guided range of 237,350-239,500, indicating 13.5-14.5% growth.

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

Last Earnings Report

Insperty Lags on Q3 Earnings, Revenues Beat Estimates

Insperty reported mixed third-quarter 2019 results, wherein earnings lagged the Zacks Consensus Estimate but revenues surpassed the same.

Adjusted earnings of 75 cents per share missed the consensus mark by 25.7% and decreased 21.9% year over year on the back of elevated benefit costs. The reported figure lies below the guided range of \$1.00-\$1.04.

Total revenues of \$1.04 billion beat the consensus estimate by 0.8% and increased 12.8% year over year on the back of 12% rise in average number of worksite employees (WSEEs) paid per month. Average number of worksite employees paid per month was 240,939 at the end of the reported quarter.

Quarter Ending **09/2019**

Report Date	Nov 04, 2019
Sales Surprise	0.76%
EPS Surprise	-25.74%
Quarterly EPS	0.75
Annual EPS (TTM)	4.25

Operating Results

Gross profit of \$170.55 million increased 2.7% from the year-ago quarter. Gross margin of 16.3% declined from 17.9% in the year-ago quarter. Gross profit per worksite employee per month decreased 8.2% year over year to \$236.

Adjusted EBITDA was down 16.9% year over year to \$51.15 million. Adjusted EBITDA per worksite employee per month decreased 25.3% to \$75.

Adjusted operating expenses increased 15.2% year over year to \$135.81 million. Adjusted operating expenses per worksite employee per month increased 2.7% to \$188.

Operating income decreased 27.8% year over year to \$34.73 million. Operating income per worksite employee per month decreased 36% to \$48.

Balance Sheet & Cash Flow

Insperty exited third-quarter 2019 with adjusted cash, cash equivalents and marketable securities of \$130.86 million compared with \$130.66 million at the end of the prior quarter. Long-term debt amounted to \$239.40 million compared with \$169.40 million at the end of the previous quarter.

Q4 Guidance

For fourth-quarter 2019, Insperty projects adjusted earnings in the range of 50-61 cents per share. The midpoint of this guided range indicates a year-over-year decline of 19.6%.

Adjusted EBITDA is anticipated between \$38 and \$44 million. The midpoint of this guided range indicates a year-over-year decline of 13.9%.

Average WSEEs is expected in the range of 244,000-246,200, indicating 10-11% growth.

2019 Guidance

For the full year, Insperty lowered its guidance for adjusted EPS, adjusted EBITDA and average WSEEs.

The company now projects adjusted earnings in the band of \$4.08-\$4.20 per share (indicating growth of 9-12%) compared with the previously guided range of \$4.59-\$4.74 (which suggested growth of 22-26%).

Adjusted EBITDA is now anticipated to grow 3-6% to a range of \$247-\$253 million compared with the previously guided range of \$278-\$286 million (which indicated 16-19% growth).

Average WSEEs are expected to grow 12.7-13% to a range of 235,700-236,300 compared with the previously guided range of 237,350-239,500, indicating 13.5-14.5% growth.

Recent News

On **Dec 2, 2019**, Insuperity announced the appointment of Latha Ramchand and John Lumelleau as new independent directors to its board.

On **Nov 21, 2019**, Insuperity's board of directors announced a quarterly cash dividend of 30 cents per share. The dividend will be paid out on Dec 20, 2019 to all stockholders of record as of Dec 6, 2019.

On **Oct 15, 2019**, Insuperity announced the opening of its new district office in Las Vegas which has sales and service capabilities.

Valuation

Insuperity shares are down 7.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 4.5% and 27%, respectively, over the past year.

The S&P 500 index is up 24.6% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 15.29X, which compares to 7.2X for the Zacks sub-industry, 11.98X for the Zacks sector and 11.99X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.24X and as low as 7.36X, with a 5-year median of 12.87X. Our Neutral recommendation indicates that the stock will perform worse than the market. Our \$95.00 price target reflects 20.36X 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	15.29	7.2	11.98	11.99
	5-Year High	26.24	9.73	12.56	12.86
	5-Year Low	7.36	5.6	8.75	8.48
	5-Year Median	12.87	7.64	10.38	10.67
P/E F 12M	Current	18.56	12.35	24.51	18.79
	5-Year High	36.22	17.47	24.51	19.34
	5-Year Low	14.06	10.75	18.76	15.17
	5-Year Median	22.6	14.42	20.56	17.44
P/S F 12M	Current	0.73	0.41	3.88	3.48
	5-Year High	1.29	0.55	5.13	3.48
	5-Year Low	0.32	0.33	3.09	2.54
	5-Year Median	0.53	0.44	3.63	3

As of 01/07/2020

Industry Analysis Zacks Industry Rank: Top 41% (103 out of 254)



Top Peers

BG Staffing Inc (BGSF)	Outperform
Kelly Services, Inc. (KELYA)	Neutral
Kforce, Inc. (KFRC)	Neutral
Korn/Ferry International (KFY)	Neutral
ManpowerGroup Inc. (MAN)	Neutral
Robert Half International Inc. (RHI)	Neutral
Staffing 360 Solutions, Inc. (STAF)	Neutral
TrueBlue, Inc. (TBI)	Neutral

Industry Comparison Industry: Staffing Firms				Industry Peers		
	NSP Neutral	X Industry	S&P 500	KFY Neutral	MAN Neutral	RHI Neutral
VGM Score	D	-	-	A	A	A
Market Cap	3.46 B	614.22 M	23.82 B	2.34 B	5.68 B	7.30 B
# of Analysts	4	2	13	3	4	7
Dividend Yield	1.39%	1.38%	1.8%	0.95%	2.26%	1.97%
Value Score	B	-	-	A	A	B
Cash/Price	0.10	0.04	0.04	0.20	0.14	0.04
EV/EBITDA	15.97	10.76	13.92	11.85	6.99	10.93
PEG Ratio	1.05	1.35	2.00	NA	8.42	2.15
Price/Book (P/B)	84.53	2.07	3.32	1.88	2.09	6.65
Price/Cash Flow (P/CF)	22.03	9.50	13.58	10.18	8.91	15.12
P/E (F1)	18.88	13.31	18.86	13.31	12.63	15.19
Price/Sales (P/S)	0.82	0.42	2.63	1.17	0.27	1.21
Earnings Yield	5.36%	7.42%	5.30%	7.52%	7.92%	6.59%
Debt/Equity	5.84	0.35	0.72	0.38	0.48	0.18
Cash Flow (\$/share)	3.93	2.27	6.94	4.15	10.81	4.16
Growth Score	F	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	47.17%	12.62%	10.56%	14.66%	12.62%	9.76%
Proj. EPS Growth (F1/F0)	12.28%	4.27%	7.49%	-4.03%	3.04%	5.88%
Curr. Cash Flow Growth	55.89%	18.84%	14.83%	15.36%	18.84%	29.44%
Hist. Cash Flow Growth (3-5 yrs)	23.19%	10.90%	9.00%	17.50%	8.36%	10.90%
Current Ratio	1.17	1.60	1.23	2.33	1.48	1.67
Debt/Capital	85.38%	25.86%	42.92%	27.34%	32.32%	15.31%
Net Margin	3.69%	2.86%	11.08%	9.10%	2.30%	7.56%
Return on Equity	166.72%	14.52%	17.16%	14.73%	17.69%	41.71%
Sales/Assets	3.27	2.22	0.55	0.84	2.40	2.78
Proj. Sales Growth (F1/F0)	9.67%	4.53%	4.15%	4.27%	-0.65%	4.53%
Momentum Score	D	-	-	B	D	A
Daily Price Chg	-1.39%	0.00%	-0.22%	-0.49%	-0.49%	0.06%
1 Week Price Chg	0.06%	0.28%	-0.30%	1.29%	0.28%	1.39%
4 Week Price Chg	9.07%	3.03%	2.11%	6.44%	1.72%	4.91%
12 Week Price Chg	-15.16%	6.20%	5.70%	15.93%	13.34%	13.35%
52 Week Price Chg	-6.61%	0.00%	22.84%	-0.82%	39.31%	9.61%
20 Day Average Volume	491,810	118,399	1,570,747	390,185	260,911	919,039
(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%	0.00%	0.21%	0.00%	0.00%
(F1) EPS Est 12 week change	-17.97%	0.00%	-0.53%	-2.26%	-4.55%	-0.55%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-0.23%	0.00%	0.00%

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	B
Growth Score	F
Momentum Score	D
VGM Score	D

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.

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