

Inspirity, Inc.(NSP)

\$73.51 (As of 02/14/20)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/16/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

Summary

Inspirity continues to grapple with increasing operating expenses due to heavy investment in growth, technology, product and service offerings. Notably, increase in operating expenses (up 10.7% in 2019 on a year-over-year basis) are limiting bottom-line growth. Also, 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 underperformed the industry in a year's time. On the flip side, the company 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.

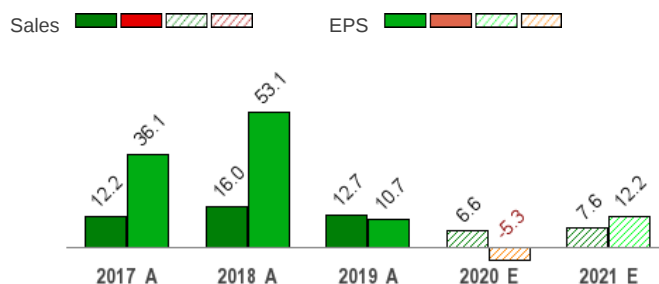
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$144.92 - \$65.89
20 Day Average Volume (sh)	570,759
Market Cap	\$2.9 B
YTD Price Change	-14.6%
Beta	1.10
Dividend / Div Yld	\$1.20 / 1.6%
Industry	Staffing Firms
Zacks Industry Rank	Bottom 11% (228 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.6%
Last Sales Surprise	1.7%
EPS F1 Est- 4 week change	-16.1%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	17.8
P/E F1	18.7
PEG F1	1.0
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,317 E	1,198 E	1,199 E	1,235 E	4,948 E
2020	1,224 E	1,108 E	1,112 E	1,156 E	4,599 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	\$4.41 E
2020	\$1.63 E	\$0.80 E	\$0.83 E	\$0.68 E	\$3.93 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 02/14/2020. The reports text is as of 02/18/2020.

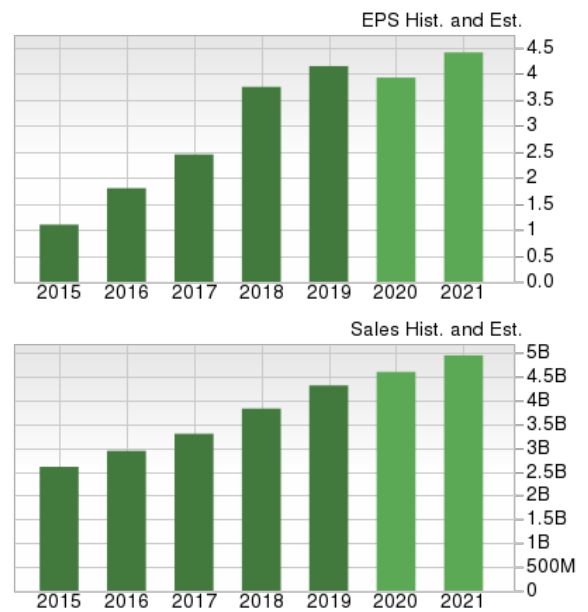
Overview

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 \$4.31 billion revenues in 2019, 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 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 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.

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

Risks

- 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 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.
 - 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.
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Last Earnings Report

Insperity Beats on Q4 Earnings & Revenues

Insperity reported solid fourth-quarter 2019 results, wherein both earnings and revenues surpassed the Zacks Consensus Estimate.

Adjusted earnings of 57 cents per share beat the consensus mark by 3.6% but decreased 17.4% year over year. The reported figure came within the guided range of 50-61 cents.

Total revenues of \$1.08 billion outpaced the consensus estimate by 1.6% and increased 11.2% year over year on the back of a 10% rise in average number of worksite employees (WSEEs) paid per month. Average number of worksite employees paid per month was 243,715 at the end of the reported quarter.

Operating Results

Gross profit of \$161.9 million increased 0.2% from the year-ago quarter as higher benefit costs were partially offset by improved pricing. Gross margin of 15.1% declined from 16.7% in the year-ago quarter. Gross profit per worksite employee per month decreased 9.1% year over year to \$221.

Adjusted EBITDA was down 14.4% year over year to \$40.7 million. Adjusted EBITDA per worksite employee per month decreased 22.2% to \$56.

Adjusted operating expenses increased 4.1% year over year to \$134.2 million. Adjusted operating expenses per worksite employee per month decreased 5.7% to \$183.

Operating income decreased 15% year over year to \$27.7 million. Operating income per worksite employee per month decreased 22.4% to \$38.

Balance Sheet & Cash Flow

Insperity exited fourth-quarter 2019 with adjusted cash, cash equivalents and marketable securities of \$107.91 million compared with \$130.86 million at the end of the prior quarter. Long-term debt amounted to \$269.40 million compared with \$239.40 million at the end of the previous quarter.

The company repurchased 643,000 shares for \$49.4 million during the reported quarter.

Q1 Guidance

For first-quarter 2020, Insperity projects adjusted earnings in the range of \$1.61-\$1.70 per share. The midpoint of this guidance indicates a year-over-year decline of 16.4%. Adjusted EBITDA is anticipated between \$98 million and \$103 million. The midpoint of this guidance indicates a year-over-year decline of 0.9%. Average WSEEs is expected in the range of 238,000-240,200, indicating 5.5-6.5% growth.

2020 Guidance

For 2020, Insperity unveiled its guidance for adjusted EPS, adjusted EBITDA and average WSEEs.

The company projects adjusted earnings in the band of \$3.73-\$4.16 per share (indicating a decline of 10%). Adjusted EBITDA is anticipated to grow 10% to a range of \$250-\$274 million. Average WSEEs are expected to grow 6-8% to a range of 249,700-254,400.

Quarter Ending **12/2019**

Report Date	Feb 11, 2020
Sales Surprise	1.66%
EPS Surprise	3.64%
Quarterly EPS	0.57
Annual EPS (TTM)	4.13

Recent News

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

On **Nov 21, 2019**, Insperity'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.

Valuation

Insperity shares are down 43.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 19% while those in the Zacks Business Services sector are up 24.7%, over the past year.

The S&P 500 index is up 20.7% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 12.84X, which compares to 6.6X for the Zacks sub-industry, 12.78X for the Zacks sector and 12.31X 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 13X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$60.00 price target reflects 15.03X 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	12.84	6.6	12.78	12.31
	5-Year High	26.24	9.73	12.78	12.85
	5-Year Low	7.36	5.6	8.76	8.47
	5-Year Median	13	7.64	10.42	10.7
P/E F 12M	Current	18.42	11.28	26.64	19.35
	5-Year High	35.30	17.47	26.64	19.35
	5-Year Low	14.06	10.75	18.78	15.18
	5-Year Median	22.28	14.28	20.59	17.47
P/S F12M	Current	0.62	0.37	4.26	3.58
	5-Year High	1.29	0.55	5.14	3.58
	5-Year Low	0.32	0.33	3.1	2.54
	5-Year Median	0.54	0.44	3.64	3

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Bottom 11% (228 out of 255)



Top Peers

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

Industry Comparison Industry: Staffing Firms				Industry Peers		
	NSP Underperform	X Industry	S&P 500	KFY Neutral	MAN Neutral	RHI Neutral
VGM Score	A	-	-	A	A	A
Market Cap	2.89 B	637.56 M	24.61 B	2.30 B	5.47 B	6.99 B
# of Analysts	4	2	13	3	6	7
Dividend Yield	1.63%	1.58%	1.78%	0.96%	2.35%	2.06%
Value Score	B	-	-	A	A	B
Cash/Price	0.10	0.05	0.04	0.21	0.19	0.05
EV/EBITDA	13.40	9.32	14.06	11.69	8.02	10.46
PEG Ratio	1.04	1.59	2.09	NA	1.93	2.26
Price/Book (P/B)	709.69	1.92	3.29	1.86	1.98	6.37
Price/Cash Flow (P/CF)	16.35	9.39	13.65	10.05	10.38	14.48
P/E (F1)	18.70	12.71	19.21	13.36	12.15	14.57
Price/Sales (P/S)	0.67	0.41	2.70	1.16	0.26	1.15
Earnings Yield	5.35%	7.85%	5.19%	7.48%	8.23%	6.86%
Debt/Equity	66.05	0.35	0.71	0.38	0.49	0.18
Cash Flow (\$/share)	4.50	2.27	6.92	4.15	8.93	4.16
Growth Score	A	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	47.17%	11.66%	10.85%	14.66%	11.66%	10.06%
Proj. EPS Growth (F1/F0)	-5.36%	1.39%	7.17%	-5.64%	2.42%	5.93%
Curr. Cash Flow Growth	9.40%	9.40%	8.56%	15.36%	-21.23%	29.44%
Hist. Cash Flow Growth (3-5 yrs)	23.19%	10.83%	8.36%	17.50%	0.59%	10.90%
Current Ratio	1.12	1.52	1.23	2.33	1.46	1.67
Debt/Capital	98.51%	25.86%	42.91%	27.34%	32.82%	15.31%
Net Margin	3.50%	2.66%	11.81%	9.10%	2.23%	7.48%
Return on Equity	202.04%	13.30%	16.86%	14.73%	16.70%	41.34%
Sales/Assets	3.22	2.18	0.54	0.84	2.33	2.70
Proj. Sales Growth (F1/F0)	6.60%	1.64%	3.85%	4.12%	-1.61%	4.97%
Momentum Score	B	-	-	B	B	D
Daily Price Chg	0.66%	-0.27%	0.06%	-0.60%	-0.32%	-0.33%
1 Week Price Chg	-0.32%	-0.32%	2.47%	0.54%	1.42%	1.82%
4 Week Price Chg	-21.61%	-6.47%	0.59%	-2.93%	-6.47%	-5.17%
12 Week Price Chg	-0.26%	-3.40%	6.98%	11.34%	0.78%	3.81%
52 Week Price Chg	-41.24%	-15.63%	16.62%	-13.06%	10.86%	-9.17%
20 Day Average Volume	570,759	68,080	2,020,569	309,480	454,990	832,562
(F1) EPS Est 1 week change	-16.08%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-16.08%	-0.09%	-0.05%	-1.68%	0.00%	-0.17%
(F1) EPS Est 12 week change	-16.08%	-3.40%	-0.17%	-3.90%	0.10%	-0.45%
(Q1) EPS Est Mthly Chg	-1.30%	-0.47%	-0.24%	-6.18%	2.30%	-0.94%

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	A
Momentum Score	B
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.

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