

CBIZ, Inc.
Form 10-Q
November 01, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-32961

CBIZ, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation

or organization)

6050 Oak Tree Boulevard, South, Suite 500, Cleveland, Ohio
(Address of principal executive offices)

22-2769024
(I.R.S. Employer

Identification No.)

44131
(Zip Code)

(216) 447-9000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:

Class of Common Stock	Outstanding at October 31, 2018
Common Stock, par value \$0.01 per share	55,491,554

CBIZ, INC. AND SUBSIDIARIES

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CBIZ, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,493	\$ 424
Restricted cash	32,551	32,985
Accounts receivable, net	234,906	188,300
Income taxes refundable/receivable	—	813
Other current assets	26,576	22,539
Current assets before funds held for clients	297,526	245,061
Funds held for clients	126,311	203,112
Total current assets	423,837	448,173
Non-current assets:		
Property and equipment, net	31,400	26,081
Goodwill and other intangible assets, net	636,202	613,206
Assets of deferred compensation plan	93,310	85,589
Notes receivable	904	620
Other non-current assets	4,203	2,562
Total non-current assets	766,019	728,058
Total assets	\$ 1,189,856	\$ 1,176,231
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 57,764	\$ 51,375
Income taxes payable	6,304	—
Accrued personnel costs	55,038	45,264
Notes payable	1,523	1,861
Contingent purchase price liability	21,136	15,151
Other current liabilities	12,735	17,013
Current liabilities before client fund obligations	154,500	130,664
Client fund obligations	127,297	203,582
Total current liabilities	281,797	334,246
Non-current liabilities:		
Bank debt	167,100	178,500
Debt issuance costs	(1,618)	(828)
Total long-term debt	165,482	177,672
Notes payable	1,480	2,164
Income taxes payable	3,596	4,454
Deferred income taxes, net	5,636	3,339
Deferred compensation plan obligations	93,310	85,589
Contingent purchase price liability	18,760	22,423

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Other non-current liabilities	17,880	15,465
Total non-current liabilities	306,144	311,106
Total liabilities	587,941	645,352
STOCKHOLDERS' EQUITY		
Common stock	1,314	1,301
Additional paid in capital	690,140	675,504
Retained earnings	409,467	345,302
Treasury stock	(499,167)	(491,046)
Accumulated other comprehensive income (loss)	161	(182)
Total stockholders' equity	601,915	530,879
Total liabilities and stockholders' equity	\$ 1,189,856	\$ 1,176,231

See the accompanying notes to the consolidated financial statements

CBIZ, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017
Revenue	\$224,249	\$207,723	\$722,980	\$660,198
Operating expenses	198,607	184,723	608,459	565,609
Gross margin	25,642	23,000	114,521	94,589
Corporate general and administrative expenses	10,279	7,979	30,300	25,979
Operating income	15,363	15,021	84,221	68,610
Other (expense) income:				
Interest expense	(1,614)	(1,777)	(5,211)	(4,986)
Gain on sale of operations, net	—	—	663	45
Other income, net	3,143	2,792	2,544	9,293
Total other income (expense), net	1,529	1,015	(2,004)	4,352
Income from continuing operations before income tax				
expense	16,892	16,036	82,217	72,962
Income tax expense	3,297	6,172	19,691	26,656
Income from continuing operations	13,595	9,864	62,526	46,306
(Loss) gain from discontinued operations, net of tax	(9)	(206)	17	(776)
Net income	\$13,586	\$9,658	\$62,543	\$45,530
Earnings (loss) per share:				
Basic:				
Continuing operations	\$0.25	\$0.18	\$1.15	\$0.86
Discontinued operations	—	—	—	(0.01)
Net income	\$0.25	\$0.18	\$1.15	\$0.85
Diluted:				
Continuing operations	\$0.24	\$0.18	\$1.11	\$0.83
Discontinued operations	—	—	—	(0.01)
Net income	\$0.24	\$0.18	\$1.11	\$0.82
Basic weighted average shares outstanding	54,794	54,142	54,489	53,804
Diluted weighted average shares outstanding	56,740	55,827	56,393	55,641
Comprehensive income:				
Net income	\$13,586	\$9,658	\$62,543	\$45,530
Other comprehensive income, net of tax	55	16	343	233
Comprehensive income	\$13,641	\$9,674	\$62,886	\$45,763

See the accompanying notes to the consolidated financial statements

CBIZ, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

(In thousands)

	Issued Common	Treasury	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Gain	Totals
	Shares	Shares	Stock	Capital	Earnings	Stock	Gain	Totals
December 31, 2017	130,075	75,484	\$ 1,301	\$ 675,504	\$ 345,302	\$(491,046)	\$ (182)	\$ 530,879
Cumulative-effect adjustment								
(Note 2)	—	—	—	—	1,622	—	—	1,622
Adjusted balance at January 1,								
2018	130,075	75,484	\$ 1,301	\$ 675,504	\$ 346,924	\$(491,046)	\$ (182)	\$ 532,501
Net income	—	—	—	—	62,543	—	—	62,543
Other comprehensive income	—	—	—	—	—	—	343	343
Share repurchases	—	379	—	—	—	(8,121)	—	(8,121)
Restricted stock	272	—	3	(3)	—	—	—	—
Stock options exercised	840	—	8	6,068	—	—	—	6,076
Share-based compensation	—	—	—	5,358	—	—	—	5,358
Business acquisitions	169	—	2	3,213	—	—	—	3,215
September 30, 2018	131,356	75,863	\$ 1,314	\$ 690,140	\$ 409,467	\$(499,167)	\$ 161	\$ 601,915

See the accompanying notes to the consolidated financial statements

CBIZ, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$62,543	\$45,530
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	17,528	17,167
Bad debt expense, net of recoveries	3,697	4,265
Adjustment to contingent earnout liability	3,290	(221)
Stock-based compensation expense	5,358	4,247
Other noncash adjustments	(1,989)	(3,273)
Changes in assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable, net	(38,937)	(38,095)
Other assets	(3,474)	2,293
Accounts payable	108	(61)
Income taxes payable	9,458	12,509
Accrued personnel costs	8,986	(7,368)
Other liabilities	(3,134)	1,606
Operating cash flows provided by continuing operations	63,434	38,599
Operating cash flows used in discontinued operations	(162)	(748)
Net cash provided by operating activities	63,272	37,851
Cash flows from investing activities:		
Business acquisitions and purchases of client lists, net of cash acquired	(24,612)	(27,406)
Purchases of client fund investments	(10,745)	(14,046)
Proceeds from the sales and maturities of client fund investments	8,701	6,495
Proceeds from sales of divested operations	332	45
Increase in funds held for clients	78,307	87,224
Additions to property and equipment, net	(9,800)	(8,870)
Collection of notes receivable	18	21
Net cash provided by investing activities	42,201	43,463
Cash flows from financing activities:		
Proceeds from bank debt	563,800	425,400
Payment of bank debt	(575,200)	(410,800)
Payment for acquisition of treasury stock	(8,121)	(10,261)
Decrease in client funds obligations	(76,285)	(79,736)
Proceeds from exercise of stock options	6,076	6,227
Payment of contingent consideration for acquisitions	(11,677)	(9,827)
Other, net	(1,431)	(309)
Net cash used in financing activities	(102,838)	(79,306)
Net increase in cash, cash equivalents and restricted cash	2,635	2,008
Cash, cash equivalents and restricted cash at beginning of year	33,409	31,374
Cash, cash equivalents and restricted cash at end of period	\$36,044	