

CBIZ, Inc.
Form 10-Q
August 02, 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 June 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post 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	(Do not check if a smaller reporting company) 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 July 31, 2018
Common Stock, par value \$0.01 per share	55,323,170

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)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,921	\$ 424
Restricted cash	39,535	32,985
Accounts receivable, net	245,639	188,300
Income taxes refundable/receivable	—	813
Other current assets	27,873	22,539
Current assets before funds held for clients	314,968	245,061
Funds held for clients	131,304	203,112
Total current assets	446,272	448,173
Non-current assets:		
Property and equipment, net	28,649	26,081
Goodwill and other intangible assets, net	640,312	613,206
Assets of deferred compensation plan	89,987	85,589
Notes receivable	906	620
Other non-current assets	3,998	2,562
Total non-current assets	763,852	728,058
Total assets	\$1,210,124	\$ 1,176,231
LIABILITIES		
Current liabilities:		
Accounts payable	\$80,823	\$ 51,375
Income taxes payable	6,987	—
Accrued personnel costs	42,750	45,264
Notes payable	1,632	1,861
Contingent purchase price liability	27,344	15,151
Other current liabilities	13,587	17,013
Current liabilities before client fund obligations	173,123	130,664
Client fund obligations	132,289	203,582
Total current liabilities	305,412	334,246
Non-current liabilities:		
Bank debt	180,200	178,500
Debt issuance costs	(1,707)	(828)
Total long-term debt	178,493	177,672
Notes payable	1,653	2,164
Income taxes payable	4,574	4,454
Deferred income taxes, net	4,000	3,339
Deferred compensation plan obligations	89,987	85,589
Contingent purchase price liability	19,184	22,423

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Other non-current liabilities	17,995	15,465
Total non-current liabilities	315,886	311,106
Total liabilities	621,298	645,352
STOCKHOLDERS' EQUITY		
Common stock	1,311	1,301
Additional paid in capital	686,983	675,504
Retained earnings	395,881	345,302
Treasury stock	(495,455)	(491,046)
Accumulated other comprehensive income (loss)	106	(182)
Total stockholders' equity	588,826	530,879
Total liabilities and stockholders' equity	\$1,210,124	\$ 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		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Revenue	\$232,641	\$211,016	\$498,731	\$452,475
Operating expenses	205,102	188,120	409,852	380,886
Gross margin	27,539	22,896	88,879	71,589
Corporate general and administrative expenses	9,993	9,232	20,021	18,000
Operating income	17,546	13,664	68,858	53,589
Other (expense) income:				
Interest expense	(1,817)	(1,692)	(3,597)	(3,209)
Gain on sale of operations, net	—	23	663	45
Other income (expense), net	630	3,764	(599)	6,501
Total other (expense) income, net	(1,187)	2,095	(3,533)	3,337
Income from continuing operations before income tax				
expense	16,359	15,759	65,325	56,926
Income tax expense	3,238	4,343	16,394	20,484
Income from continuing operations	13,121	11,416	48,931	36,442
(Loss) gain from discontinued operations, net of tax	(15)	(418)	26	(570)
Net income	\$13,106	\$10,998	\$48,957	\$35,872
Earnings (loss) per share:				
Basic:				
Continuing operations	\$0.24	\$0.21	\$0.90	\$0.68
Discontinued operations	—	(0.01)	—	(0.01)
Net income	\$0.24	\$0.20	\$0.90	\$0.67
Diluted:				
Continuing operations	\$0.23	\$0.20	\$0.87	\$0.66
Discontinued operations	—	(0.01)	—	(0.01)
Net income	\$0.23	\$0.19	\$0.87	\$0.65
Basic weighted average shares outstanding	54,594	53,968	54,334	53,632
Diluted weighted average shares outstanding	56,437	55,831	56,166	55,530
Comprehensive income:				
Net income	\$13,106	\$10,998	\$48,957	\$35,872
Other comprehensive income, net of tax	174	37	288	217
Comprehensive income	\$13,280	\$11,035	\$49,245	\$36,089

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	—	—	—	—	48,957	—	—	48,957
Other comprehensive income	—	—	—	—	—	—	288	288
Share repurchases	—	219	—	—	—	(4,409)	—	(4,409)
Restricted stock	272	—	4	(4)	—	—	—	—
Stock options exercised	616	—	5	4,420	—	—	—	4,425
Share-based compensation	—	—	—	3,850	—	—	—	3,850
Business acquisitions	169	—	1	3,213	—	—	—	3,214
June 30, 2018	131,132	75,703	\$ 1,311	\$ 686,983	\$ 395,881	\$(495,455)	\$ 106	\$ 588,826

See the accompanying notes to the consolidated financial statements

CBIZ, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$48,957	\$35,872
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	11,676	11,279
Bad debt expense, net of recoveries	3,172	2,439
Adjustment to contingent earnout liability	3,050	(756)
Stock-based compensation expense	3,850	2,790
Other noncash adjustments	(2,840)	(1,115)
Changes in assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable, net	(44,774)	(40,997)
Other assets	(4,955)	(263)
Accounts payable	18,796	14,376
Income taxes payable	10,245	8,762
Accrued personnel costs	(3,302)	(9,598)
Other liabilities	(2,617)	1,989
Operating cash flows provided by continuing operations	41,258	24,778
Operating cash flows used in discontinued operations	(152)	(540)
Net cash provided by operating activities	41,106	24,238
Cash flows from investing activities:		
Business acquisitions and purchases of client lists, net of cash acquired	(23,740)	(26,561)
Purchases of client fund investments	(10,345)	(11,788)
Proceeds from the sales and maturities of client fund investments	7,273	4,375
Increase in funds held for clients	74,428	72,417
Additions to property and equipment, net	(5,493)	(6,749)
Collection of notes receivable	348	63
Net cash provided by investing activities	42,471	31,757
Cash flows from financing activities:		
Proceeds from bank debt	439,000	308,000
Payment of bank debt	(437,300)	(288,800)
Payment for acquisition of treasury stock	(4,409)	(5,675)
Decrease in client funds obligations	(71,293)	(65,041)
Proceeds from exercise of stock options	4,425	5,649
Payment of contingent consideration for acquisitions	(4,632)	(5,211)
Other, net	(1,321)	(206)
Net cash used in financing activities	(75,530)	(51,284)
Net increase in cash, cash equivalents and restricted cash	8,047	4,711
Cash, cash equivalents and restricted cash at beginning of year	33,409	31,374
Cash, cash equivalents and restricted cash at end of period	\$41,456	\$36,085

See the accompanying notes to the consolidated financial statements

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CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business: CBIZ, Inc. is a diversified services company which, acting through its subsidiaries, has been providing professional business services since 1996, primarily to small and medium-sized businesses, as well as individuals, governmental entities, and not-for-profit enterprises throughout the United States and parts of Canada. CBIZ, Inc. manages and reports its operations along three practice groups; Financial Services, Benefits and Insurance Services and National Practices. A further description of products and services offered by each of the practice groups is provided in Note 16, Segment Disclosures, to the accompanying consolidated financial statements.

Basis of Consolidation: The accompanying unaudited condensed consolidated financial statements include the operations of CBIZ, Inc. and all of its wholly-owned subsidiaries (“CBIZ”, the “Company”, “we”, “us”, or “our”), after elimination of all intercompany balances and transactions. These condensed consolidated financial statements do not reflect the operations or accounts of variable interest entities as the impact is not material to the financial condition, results of operations or cash flows of CBIZ.

Unaudited Interim Financial Statements: The condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (the “SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

In the opinion of CBIZ management, the accompanying condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial condition, results of operations, and cash flows for the interim periods presented, but are not necessarily indicative of the results of operations to be anticipated for the full year ending December 31, 2018.

Use of Estimates: The preparation of condensed consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Changes in circumstances could cause actual results to differ materially from these estimates.

Changes in Accounting Policies: We have consistently applied the accounting policies for the periods presented as described in Note 1, Basis of Presentation and Significant Accounting Policies, to the consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Effective January 1, 2018, we adopted Accounting Standards Update (“ASU”) No. 2015-14, “Revenue from Contracts with Customers” (“Topic 606”). As a result, we have changed our accounting policy for revenue recognition as described below in Note 2, New Accounting Pronouncements.

NOTE 2. New Accounting Pronouncements

The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) is the sole source of authoritative GAAP other than the SEC issued rules and regulations that apply only to SEC registrants. The FASB

issues an accounting standard to communicate changes to the FASB codification. We assess and review the impact of all accounting standards. Any accounting standards not listed below were reviewed and determined to be either not applicable or are not expected to have a material impact on the consolidated financial statements of the Company.

Accounting Standards Adopted in 2018

Modification Accounting for Share-Based Payment Awards: Effective January 1, 2018, we adopted ASU No. 2017-09, “Compensation – Stock Compensation (Topic 718) – Scope of Modification Accounting.” The new standard clarifies when a change to the terms or conditions of a share-based payment award must be accounted for as a modification. Modification accounting is required if the fair value, vesting condition or the classification of the award is not the same immediately before and after a change to the terms and conditions of the award. We typically do not change either the terms or conditions of share-based payment awards once they are granted; therefore, the adoption of this new guidance had no impact on our consolidated financial statements.

Restricted Cash - Statement of Cash Flows: Effective January 1, 2018, we adopted ASU No. 2016-18, “Statement of Cash Flows (Topic 230).” The new standard requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. When restricted cash is presented separately from cash and cash equivalents on the balance sheet, a reconciliation is required between the amounts presented on the statement of cash flows and the balance sheet, as well as a disclosure of information about the nature of the restrictions. The adoption of this new standard resulted in a decrease of \$6.6 million and \$7.0 million in cash used in operating activities for the six months ended June 30, 2018 and 2017, respectively.

Restricted cash consists of funds held by us in relation to our capital and investment advisory services as those funds are restricted in accordance with applicable Financial Industry Regulatory Authority regulations. Restricted cash also consists of funds on deposit from clients in connection with the pass-through of insurance premiums to the carrier with the related liability for these funds recorded in “Accounts payable” in the accompanying Consolidated Balance Sheets.

The following table provides a reconciliation of cash, cash equivalents and restricted cash as reported in the accompanying Consolidated Balance Sheets that sum to the total of the same such amount shown in the accompanying Consolidated Statements of Cash Flows (in thousands):

	June 30 2018	June 30 2017
Cash and cash equivalents	\$ 1,921	\$ 1,161
Restricted cash	39,535	34,924
Total cash, cash equivalents and restricted cash	\$ 41,456	\$ 36,085

Statement of Cash Flows: Effective January 1, 2018, we adopted ASU No. 2016-15, “Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments.” The new standard provides guidance on eight specific cash flow issues. The application of this guidance did not have a material effect on the presentation of our Statement of Cash Flows.

Revenue from Contracts with Customers: Effective January 1, 2018, we adopted Topic 606 using the modified retrospective transition method. We recognized the cumulative effect of initially applying the new standard as an adjustment directly to the opening balance of “Retained earnings” at January 1, 2018. The comparative information has not been restated and continues to be reported under the legacy standard.

We evaluate our revenue contracts with customers based on the five-step model under Topic 606, pursuant to which we: (i) identify the contract with the customer; (ii) identify the performance obligation in the contract; (iii) determine the contract price; (iv) allocate the transaction price; and (v) recognize revenue when as each performance obligation is satisfied. If we determine that a contract with enforceable rights and obligations does not exist, revenues are deferred until all criteria for an enforceable contract are met.

Revenue recognition is consistent under both the legacy standard and Topic 606 for the majority of our revenue streams, with the exception of two business units within our Benefits and Insurance Services practice group. The revenue recognition policies in our Benefits and Insurance Services practice group have been modified under the new standard as follows.

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In our Property and Casualty business unit, commission revenue under agency billing arrangements (pursuant to which we bill the insured, collect the funds and remit the premium to the insurance carrier less our commissions) was previously recognized as of the later of the effective date of the insurance policy or the date billed to the customer.

We now recognize the commission revenue on the effective date of the insurance policy.

Also in our Property and Casualty business unit, commission revenue under direct billing arrangements (pursuant to which the insurance carrier bills the insured directly and remits the commissions to us) was previously recognized when the data necessary from the carriers was available, whereas now we recognize the commission revenue on the effective date of the insurance policy.

In our Retirement Plan Services business unit, certain defined benefit administration arrangements charge new clients an initial, non-refundable, set-up fee as part of a multi-year service agreement. Previously, these fees were recognized over the initial set up period, whereas now we defer the set-up fees and associated

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CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

costs and recognize them over the life of the contract or the expected customer relationship, whichever is longer. The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet was as follows (in thousands):

Balance Sheet	Balance at December 31, 2017	Adjustments due to Topic 606	Balance at January 1, 2018
ASSETS			
Accounts receivable, net	\$ 188,300	\$ 9,446	\$ 197,746
Other current assets	259,873	80	259,953
Other non-current assets	728,058	728	728,786
Total assets	\$ 1,176,231	\$ 10,254	\$ 1,186,485
LIABILITIES			
Accounts payable	51,375	6,281	57,656
Accrued personnel costs	45,264	595	45,859
Other current liabilities	237,607	113	237,720
Deferred income taxes, net	3,339	631	3,970
Other non-current liabilities	307,767	1,012	308,779
Total liabilities	645,352	8,632	653,984
STOCKHOLDERS' EQUITY			
Retained earnings	345,302	1,622	346,924
Other stockholders' equity	185,577	—	185,577
Total stockholders' equity	530,879	1,622	532,501
Total liabilities and stockholders' equity	\$ 1,176,231		