

Friday, May 3, 2024

DHI Group, Inc. (DHX) – Sponsored Research

Q1 '24 Earnings Preview

DHI Group, Inc. (DHX) reports Q1 '24 results on Wednesday, May 8. As noted in our April 12 report, "[Recent Data Portends Improving Demand Environment for Dice](#)," we remain comfortable with our current estimates for Q1 and FY '24. Recall that the various data points referenced at the time reflected positive sequential trends in new technology job postings from February to March as well as Q/Q growth in job postings for both tech positions and tech recruiters. In contrast, the latest data from the U.S. Bureau of Labor Statistics' Job Openings and Labor Turnover Survey (JOLTS) reflects a decline in the number of job openings and quits from February to March, leading us to believe that the broader labor market is now following a similar post-pandemic trajectory to that observed in the demand for technologists. In other words, the market for tech labor corrected sooner and is likely to lead the way out of the soft market conditions at present.

Thus far in the earnings season, Q1 results from several IT staffing companies point to continued stabilization relative to 2H '23. Commentary from various management teams suggests that demand for IT staffing and services has largely stabilized but remains somewhat uneven from month to month. As such, there appears to be a degree of cautiousness still reflected in near-term expectations with Q2 guidance generally calling for flat to modest sequential growth. Considering the uneven pace of recovery thus far, we expect DHI Group to report Q1 results consistent with Street expectations and maintain its current FY '24 guidance, which calls for a low single digit decline in revenue and an adjusted EBITDA margin of 24%. Our price target remains \$7.00 based on a FY '24 EV/Sales multiple of 2.5x.

Exhibit I: Our Estimates Versus Consensus

	Q1 '24		Q2 '24		FY '24	
	K. Liu & Co.	Consensus	K. Liu & Co.	Consensus	K. Liu & Co.	Consensus
Revenues (\$MMs)	35.9	36.1	37.0	36.4	147.4	147.0
Adjusted EBITDA (\$MMs)	7.6	7.9	8.7	8.5	35.4	35.2
EPS	0.00	0.00	0.02	0.02	0.09	0.07

Sources: K. Liu & Company LLC; FactSet Estimates

For Q1, we project revenue of \$35.9 million, comprised of \$23.1 million from Dice and \$12.8 million from ClearanceJobs. We model a 4% decline in bookings as a challenging macro backdrop for Dice is partially offset by favorable market conditions for ClearanceJobs. We suspect our adjusted EBITDA estimate of \$7.6 million could prove conservative given the sequential ramp in sales and marketing reflected in our model. With only one quarter completed thus far in the year and no clear trends emerging, we assume management will reaffirm its prior FY '24 guidance.

Analyst Certification and Additional Disclosures Appear on Page 5.

K. Liu & Company LLC conducts or pursues business with companies covered in its research reports. Investors should therefore be aware potential conflicts of interest may exist. Our reports do not constitute investment advice as we have not considered any individual client's financial situation, risk tolerance and other factors relevant to recommending a particular security or other action. Before making any investment decision, you should consult an investment advisor and other appropriate professionals.

Price Target \$ 7.00

Price	2.61
Shares outstanding	48.0
Market cap	125.4
Cash and investments	4.2
Debt	38.0
Enterprise value	159.2
Fiscal Year End	December

Estimates	2023A	2024E	2025E
Sales	151.9	147.4	156.6
Adj. EBITDA	36.3	35.4	39.6
NG EPS	0.37	0.31	0.38

Valuation	2023A	2024E	2025E
EV/Sales	1.0x	1.1x	1.0x
EV/EBITDA	4.4x	4.5x	4.0x
P/E	7.0x	8.3x	6.9x

In \$MMs expect per share data

Below, we highlight commentary from several IT staffing and services providers as it relates to the current demand environment:

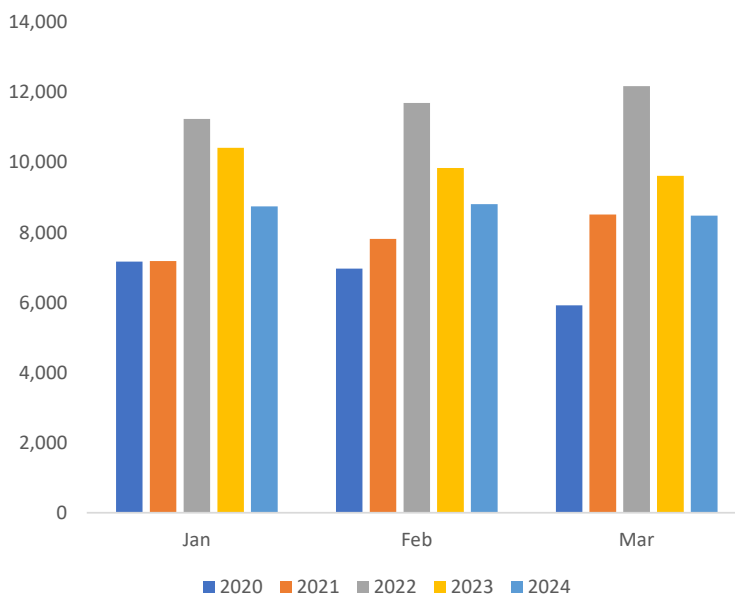
“... from the third quarter into the fourth, and now, the fourth into the first, adjusted for billing days and seasonality, have just really seen a, what I'll say just a steady trend. No real change in client tone or conversations. And here in the first three weeks of the second quarter, more of the same. So it's a little out the norm, if you will. There is typically some seasonality here, where when you move out of the first and into the second, your volumes are ramping up. But we don't see that right now, we just see a steadiness.” -- Theodore Hanson, CEO of ASGN

“Looking forward to Q2, we expect technology consultants on assignment to remain relatively consistent with the levels we ended with in the first quarter and for revenue to increase sequentially in the low single-digits. Year-over-year revenue declines will decelerate to the mid-single digit.” – David Kelly, COO of Kforce

“The market for IT skills in the US remains strong, but it's not as tight as it was and, of course, not even close to as tight as it was immediately post-pandemic. What we're seeing is continued weakness on the enterprise; so large tech companies still being cautious in terms of their overall hiring and coming off a pandemic hiring boom. But convenience demand looks reasonable. It is still weak, but it's stronger than the demand that we see from enterprise tech clients or enterprise clients at large. And just as Jack just mentioned, what we've observed is a stabilization sequentially, which we take as an encouraging first sign. Companies are looking for more specialized skills. And we believe that as the outlook firms up and employers feel better about the economic outlook and see less uncertainty that those trends are going to continue to improve.” – Jonas Prising, CEO of ManpowerGroup

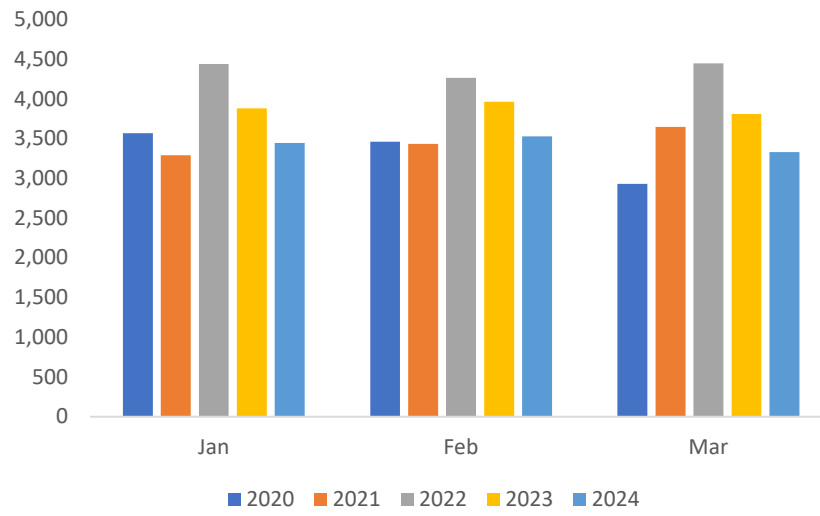
“Well, I would argue the latter, the spring-loaded rebound. And I base that in part on if you look at the number of job openings, which in the US are just under 9 million, while I understand that's less than their peak or it was in the 12-ish range, if you compare to prior staffing industry downturns, that 8 to 9 million is significantly higher than it was at those times. And we view those openings as pent-up demand for future hires, be it contract or perm placement. So we think the level of pent-up demand for hiring as further evidenced by the labor short market we're in, we think that bodes very well, and we think we will come spring loaded when we get through this funk, your word, that we've been experiencing for the last 6, 7 quarters.” – M. Keith Waddell, CEO Robert Half

Exhibit II: U.S. Job Openings in Thousands



Source: U.S. Bureau of Labor Statistics Job Openings and Labor Turnover Survey

Exhibit III: U.S. Quits in Thousands



Source: U.S. Bureau of Labor Statistics Job Openings and Labor Turnover Survey

DHI Group, Inc. (DHX)																			
K. Liu & Company LLC																			
(\$000s)																			
	FY '19(A)	FY '20(A)	FY '21(A)	FY '22(A)	Q1 - Mar	Q2 - Jun	Q3 - Sep	Q4 - Dec	FY '23(A)	Q1 - Mar(E)	Q2 - Jun	Q3 - Sep	Q4 - Dec	FY '24(E)	Q1 - Mar	Q2 - Jun	Q3 - Sep	Q4 - Dec	FY '25(E)
Revenues	149,370	111,167	119,903	149,680	38,620	38,538	37,433	37,287	151,878	35,896	36,966	37,167	37,320	147,350	37,548	39,187	39,812	40,047	156,594
Cost of revenue	16,237	14,285	15,088	17,607	4,912	4,956	4,971	4,948	19,787	5,000	5,000	5,000	5,000	20,000	5,250	5,250	5,250	5,250	21,000
Gross profit (loss)	133,133	96,882	104,815	132,073	33,708	33,582	32,462	32,339	132,091	30,896	31,966	32,167	32,320	127,350	32,298	33,937	34,562	34,797	135,594
Product development	17,216	14,888	16,020	17,674	4,694	4,158	4,432	4,493	17,777	4,500	4,500	4,500	4,500	18,000	4,750	4,750	4,750	4,750	19,000
Sales and marketing	55,909	39,693	43,701	59,364	16,060	14,723	14,036	12,602	57,421	13,500	13,500	13,000	13,000	53,000	14,000	14,000	13,500	13,500	55,000
General and administrative	31,003	26,624	28,583	34,049	8,208	8,453	7,210	7,402	31,273	7,750	7,750	7,750	7,750	31,000	8,250	8,250	8,250	8,250	33,000
Depreciation	9,743	10,259	16,344	17,487	4,173	4,162	4,241	4,339	16,915	4,350	4,350	4,350	4,350	17,400	4,500	4,500	4,500	4,500	18,000
Amortization of intangible assets	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Other non-recurring items	2,237	37,808	1,919	(2,061)	--	2,115	302	--	2,417	--	--	--	--	--	--	--	--	--	--
Operating income (loss)	17,025	(32,390)	(1,752)	5,560	573	(29)	2,241	3,503	6,288	796	1,866	2,567	2,720	7,950	798	2,437	3,562	3,797	10,594
Interest and other income (expense), net	(701)	(2,834)	721	(1,963)	(627)	(775)	(472)	(792)	(2,666)	(651)	(595)	(571)	(578)	(2,396)	(557)	(493)	(470)	(477)	(1,997)
Income (loss) before provision for income taxes	16,324	(35,224)	(1,031)	3,597	(54)	(804)	1,769	2,711	3,622	145	1,271	1,996	2,143	5,555	241	1,944	3,092	3,321	8,597
Provision for income taxes	3,773	(2,857)	(629)	(579)	(514)	(677)	759	563	131	36	318	499	536	1,389	60	486	773	830	2,149
Net income (loss) from continuing operations	12,551	(32,367)	(402)	4,176	460	(127)	1,010	2,148	3,491	109	953	1,497	1,607	4,166	180	1,458	2,319	2,490	6,448
Income (loss) from discontinued operations, net	--	2,122	(29,340)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Net income (loss)	12,551	(30,245)	(29,742)	4,176	460	(127)	1,010	2,148	3,491	109	953	1,497	1,607	4,166	180	1,458	2,319	2,490	6,448
Tax rate	23.1%	8.1%	61.0%	-16.1%	951.9%	84.2%	42.9%	20.8%	3.6%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Non-GAAP Reconciliation:																			
Operating income (loss)	17,025	(32,390)	(1,752)	5,560	573	(29)	2,241	3,503	6,288	796	1,866	2,567	2,720	7,950	798	2,437	3,562	3,797	10,594
Add: intangible assets amortization	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Add: non-recurring items	2,386	39,001	3,888	(1,616)	421	2,215	921	27	3,584	--	--	--	--	--	--	--	--	--	--
Add: stock-based compensation	5,704	5,764	7,681	9,519	2,887	2,397	1,989	2,194	9,467	2,500	2,500	2,500	2,500	10,000	2,750	2,750	2,750	2,750	11,000
Non-GAAP operating income	25,115	12,375	9,817	13,463	3,881	4,583	5,151	5,724	19,339	3,296	4,366	5,067	5,220	17,950	3,548	5,187	6,312	6,547	21,594
Interest and other income, net	(701)	(2,834)	721	(1,963)	(627)	(775)	(472)	(792)	(2,666)	(651)	(595)	(571)	(578)	(2,396)	(557)	(493)	(470)	(477)	(1,997)
Add: loss (gain) on unusual item	--	1,802	(1,388)	1,709	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Non-GAAP income before taxes	24,414	11,343	9,150	13,209	3,254	3,808	4,679	4,932	16,673	2,645	3,771	4,496	4,643	15,555	2,991	4,694	5,842	6,071	19,597
Provision for income taxes	3,773	(2,857)	(629)	(579)	(514)	(677)	759	563	131	36	318	499	536	1,389	60	486	773	830	2,149
Non-GAAP net income (loss)	20,641	14,200	9,779	13,788	3,768	4,485	3,920	4,369	16,542	2,609	3,453	3,997	4,107	14,166	2,930	4,208	5,069	5,240	17,448
Non-GAAP tax rate	15.5%	-25.2%	-6.9%	-4.4%	-15.8%	-17.8%	16.2%	11.4%	0.8%	1.4%	8.4%	11.1%	11.5%	8.9%	2.0%	10.4%	13.2%	13.7%	11.0%
Non-GAAP operating income	25,115	12,375	9,817	13,463	3,881	4,583	5,151	5,724	19,339	3,296	4,366	5,067	5,220	17,950	3,548	5,187	6,312	6,547	21,594
Add: depreciation	9,743	10,259	16,344	17,487	4,173	4,162	4,241	4,339	16,915	4,350	4,350	4,350	4,350	17,400	4,500	4,500	4,500	4,500	18,000
Add: other income (expense), net	1	(1)	1	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Adjusted EBITDA from continuing operations	34,859	22,633	26,162	30,950	8,054	8,745	9,392	10,063	36,254	7,646	8,716	9,417	9,570	35,350	8,048	9,687	10,812	11,047	39,594
EPS	0.24	(0.63)	(0.64)	0.09	0.01	(0.00)	0.02	0.05	0.08	0.00	0.02	0.03	0.04	0.09	0.00	0.03	0.05	0.05	0.14
Non-GAAP EPS	0.40	0.29	0.20	0.30	0.08	0.10	0.09	0.10	0.37	0.06	0.08	0.09	0.09	0.31	0.06	0.09	0.11	0.11	0.38
Basic shares outstanding	48,739	48,278	46,333	44,274	43,886	43,460	43,405	43,539	43,571	43,739	43,939	44,139	44,339	44,039	44,539	44,739	44,939	45,139	44,839
Diluted shares outstanding	51,633	49,571	48,912	46,533	45,240	44,159	44,324	44,612	44,496	44,812	45,012	45,212	45,412	45,112	45,612	45,812	46,012	46,212	45,912
Selected Balance Sheet Data:																			
Cash and cash equivalents	5,381	4,542	1,540	3,006	5,368	2,724	3,724	4,206	4,206	14,886	19,306	17,981	22,868	22,868	34,762	38,876	37,409	44,852	44,852
Accounts receivable	21,158	16,134	18,385	20,494	24,980	18,990	18,591	22,225	22,225	23,821	18,635	18,960	22,514	22,514	24,370	19,625	20,204	24,138	24,138
Fixed assets	20,352	23,033	20,581	21,252	21,879	22,133	23,376	25,272	25,272	26,172	26,822	27,472	28,122	28,122	28,872	29,622	30,372	31,122	31,122
Goodwill and other intangible assets	195,059	151,900	151,900	151,900	151,900	151,900	151,900	151,900	151,900	151,900	151,900	151,900	151,900	151,900	151,900	151,900	151,900	151,900	151,900
Accounts payable and accrued expenses	18,908	15,308	15,859	23,818	12,403	14,257	15,731	17,408	17,408	12,039	13,838	15,250	18,150	18,150	12,500	14,513	16,000	19,050	19,050
Deferred revenue	51,626	36,582	46,146	50,864	58,844	53,434	48,844	49,971	49,971	65,325	59,845	54,303	56,425	56,425	73,662	67,870	61,586	65,559	65,559
Debt	9,435	19,583	22,730	30,000	46,000	43,000	40,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000
Stockholders' equity	161,195	127,570	116,362	106,239	101,252	100,476	103,088	107,542	107,542	110,187	113,676	117,709	121,852	121,852	124,818	129,062	134,167	139,443	139,443

Analyst Certification

Kevin Liu, CFA (“the analyst”) certifies that all of the views expressed in this report accurately reflect the analyst’s personal views regarding the companies and securities covered by this report, and no part of the analyst’s compensation was, is, or will be, directly or indirectly, tied to the specific recommendations or views expressed by the analyst in this report. The analyst has received and is eligible to receive compensation based on K. Liu & Company LLC’s overall revenues, the performance of the analyst’s recommendations, and other competitive factors.

Important Disclosures

K. Liu & Company LLC (“the firm”) receives or intends to seek compensation from the companies covered in its research reports. The firm has received compensation from DHI Group, Inc. (DHX) in the past 12 months for “Sponsored Research.”

Sponsored Research produced by the firm is paid for by the subject company in the form of an initial retainer and a recurring monthly fee. The analysis and recommendations in our Sponsored Research reports are derived from the same process and methodologies utilized in all of our research reports whether sponsored or not. The subject company does not review any aspect of our Sponsored Research reports prior to publication.

This report is available in electronic form at <https://www.kliuco.com>.

Copyright 2024, K. Liu & Company LLC. All rights reserved.