Thursday, February 8, 2024

DHI Group, Inc. (DHX) – Sponsored Research

Improved Bookings Yield Solid Q4 Results and Outlook for FY '24

DHI Group (DHX) reported Q4 '23 results ahead of our estimates and consensus. While the selling environment continues to present challenges, new customer bookings at both Dice and ClearanceJobs rebounded from the depressed levels seen in Q3. For Dice, the introduction of new pricing bundles produced an uplift in the annual contract value of deals transacted in the quarter, and bookings declined less than we feared. At ClearanceJobs, bookings growth reaccelerated into the mid-teens due in part to the passage of the 2024 National Defense Authorization Act in mid-December. The improved bookings performance translated into a modest revenue beat, which combined with lower levels of marketing spend yielded upside on both the adjusted EBITDA and EPS lines.

Thus far in FY '24, the improved cadence of new bookings and renewals in Q4 appears to have carried over, and management is cautiously optimistic that total bookings growth will return to positive levels in the latter half of the year. Reflecting the bookings trajectory of late, however, management's guidance for FY '24 calls for a low single digit decrease in revenue and an adjusted EBITDA margin of 24%. We note that the guidance compares favorably with our prior estimates and consensus, which generally reflected a mid-single digit decline in revenue and an adjusted EBITDA margin of 23%-24%.

In our view, the stronger sales performance in Q4 is encouraging and bodes well for the new year. More specifically, we believe management's shift towards selling bundled offerings provides significant opportunities for growth with both new and existing customers and is likely to translate into higher retention rates over the long term. In addition, we believe management's willingness to explore alternative customer engagement models like programmatic recruiting further expands the company's addressable market opportunity and offers new vectors for growth. With all this in mind, we raise our estimates for this year and next, primarily reflecting an increase in our assumptions for new business partially offset by a modestly higher forecast for operating expenses. We continue to anticipate that DHI Group will return to positive bookings and revenue growth in Q4 and see accelerating growth and margin expansion in FY '25. Given the uptick in our estimates, we raise our price target from \$6.75 to \$7.00 based on an unchanged FY '24 EV/Sales multiple of 2.5x.

Price Tar	get	\$	7.00				
Price			2.12				
Shares outstar	nding		46.8				
Market cap			99.3				
Cash and inves		4.2					
Debt	38.0						
Enterprise valu	133.0						
Fiscal Year Er	nd	December					
Estimates	2023A	2024E	2025E				
Sales	151.9	147.4	156.6				
Adj. EBITDA	36.3	35.4 39.					
NG EPS	0.31 0.38						
Valuation	2023A	2024E	2025E				
EV/Sales	0.9x	0.9x	0.8x				

In \$MMs expect per share data

3.7x

5.7x

3.8x

6.8x

3.4x

5.6x

EV/EBITDA

P/E

Analyst Certification and Additional Disclosures Appear on Page 6.

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.

Exhibit I: Reported Results and Guidance Versus Expectations

		Q4 '23			Q1 '24		FY '24				
_	Actual	K. Liu & Co.	Consensus	Guidance	K. Liu & Co.	Consensus	Guidance	K. Liu & Co.	Consensus		
Revenues (\$MMs)	37.3	35.9	35.8	NA	34.5	35.1	147.3-150.4	141.0	142.7		
Adjusted EBITDA (\$MMs)	10.1	9.0	8.9	NA	7.5	8.2	35.4-36.1	33.0	34.4		
EPS	0.05	0.03	0.02	NA	(0.00)	0.01	NA	0.04	0.06		

Sources: DHI Group; K. Liu & Company LLC; FactSet Estimates

Q4 revenue of \$37.3 million (-6.2% Y/Y) was ahead of our \$35.9 million estimate and the Street's \$35.8 million. Revenue from both Dice and ClearanceJobs outpaced our expectations, coming in at \$24.6 million (-12.5% Y/Y) and \$12.7 million (+9.1% Y/Y), respectively, versus our estimates of \$23.6 million and \$12.4 million. The upside in revenue across both platforms was attributable to a greater rebound in new business bookings than we assumed.

Dice bookings totaled \$22.2 million (-13.6% Y/Y), easily exceeding our projection of \$19.8 million. Although Dice continues to experience some churn in its customer cohort spending less than \$10,000 annually, new business bookings improved markedly from Q3 levels. In particular, the introduction of pricing bundles that include unlimited job postings and corporate branding pages has been well received by customers and has yielded average annual contract values meaningfully above historical levels.

ClearanceJobs bookings of \$13.9 million (+15.1% Y/Y) also surpassed our \$12.4 million projection even as the potential for a government shutdown continues to cause some delays in sales cycles. Per management, the passage of the 2024 National Defense Authorization Act in mid-December served as a catalyst for sales.

As for other key customer metrics, revenue renewal rates were generally consistent with our expectations for both Dice and ClearanceJobs, while lower customer counts were more than offset by higher average revenue per customer.

Exhibit II: Key Metrics

								[Actual	Estimated
	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22	Q1 '23	Q2 '23	Q3 '23	Q4 '23	Q4 '23
Dice bookings (000s)	25,937	36,819	25,645	24,982	25,674	37,618	21,843	19,112	22,194	19,831
ClearanceJobs bookings (000s)	10,279	13,865	9,677	11,517	12,067	15,948	10,460	12,091	13,887	12,351
Dice recruitment package customers	6,004	6,249	6,386	6,409	6,311	6,171	6,007	5,752	5,492	5,752
ClearanceJobs recruitment package customers	1,878	1,928	1,976	2,030	2,064	2,078	2,069	2,054	2,055	2,119
Dice avg monthly revenue per customer	1,160	1,176	1,192	1,239	1,282	1,306	1,295	1,294	1,316	1,293
ClearanceJobs avg monthly revenue per customer	1,486	1,534	1,559	1,609	1,656	1,710	1,737	1,785	1,823	1,774
Dice revenue renewal rate	91%	104%	99%	98%	94%	92%	84%	78%	78%	80%
ClearanceJobs revenue renewal rate	105%	104%	99%	97%	98%	95%	90%	94%	96%	95%
Dice customer renewal rate	86%	86%	85%	84%	83%	82%	79%	73%	71%	NA
ClearanceJobs customer renewal rate	88%	87%	84%	84%	80%	83%	81%	81%	78%	NA

Sources: DHI Group; K. Liu & Company LLC

Gross margin of 86.7% was slightly above our assumption of 86.2% due to the upside in revenue, while total operating expenses were in line with our estimate as lower sales and marketing expenses were offset by higher expenses elsewhere. Worth noting, technologists are increasingly creating profiles on Dice and ClearanceJobs unprompted amid the soft job market, enabling management to reduce or reallocate marketing spend that would otherwise be used to grow the candidate pool. Adjusted EBITDA of \$10.1 million (27.0% margin) exceeded our estimate of \$9.0 million and consensus of \$8.9 million. EPS of \$0.05 also beat our estimate of \$0.03.

Cash at the end of Q4 totaled \$4.2 million, while debt outstanding declined from \$40.0 million to \$38.0 million. In Q4, DHI Group generated \$7.6 million in cash flow from operations and used \$5.3 million for capital expenditures.

Management's initial guidance for FY '24 calls for a low single digit decline in revenue along with an adjusted EBITDA margin of 24%, implying revenue and adjusted EBITDA of \$147.3-\$150.4 million and \$35.4-\$36.1 million, respectively. The outlook for the year compares favorably to our estimates and consensus heading into the print. Prior to revisions, we were projecting revenue and adjusted EBITDA of \$141.0 million and \$33.0 million, respectively, while consensus stood at \$142.7 million and \$34.4 million.

Exhibit III: Estimate Revisions

	Current	Quarter	Curre	nt Year	Next Year				
	Old Estimate	New Estimate	Old Estimate	New Estimate	Old Estimate	New Estimate			
Revenues (\$MMs)	34.5	35.9	141.0	147.4	147.7	156.6			
Adjusted EBITDA (\$MMs)	7.5	7.6	33.0	35.4	35.3	39.6			
EPS	(0.00)	0.00	0.04	0.09	0.07	0.14			

Source: K. Liu & Company LLC

We raise our estimates for this year and next to reflect an uptick in our assumptions for bookings growth. While we continue to believe bookings growth will remain under pressure in the near-term, we now expect sequential improvement in the rate of decline throughout FY '24 with DHI Group reaching an inflection point in growth by Q4. That in turn should set the stage for accelerating top line growth and renewed margin expansion in FY '25.

DHI Group, Inc. (DHX)							
Q4 '23 Variance Analysis	04 (22/5)	04/22/4)	\	04/22/4)	V/V C+-	02 (22/4)	0/0 0
(\$000s)	Q4 '23(E)	Q4 '23(A)	<u>Variance</u>	Q4 '22(A)	Y/Y Growth	Q3 '23(A)	Q/Q Growth
Revenues Cost of revenue	35,915	37,287	3.8%	39,762	-6.2%	37,433	-0.4%
	4,950	4,948	0.0%	4,766	3.8%	4,971	-0.5%
Gross profit (loss)	30,965	32,339	4.4%	34,996	-7.6%	32,462	-0.4%
Product development	4,000	4,493	12.3%	4,692	-4.2%	4,432	1.4%
Sales and marketing	13,250	12,602	-4.9%	16,157	-22.0%	14,036	-10.2%
General and administrative	7,250	7,402	2.1%	8,506	-13.0%	7,210	2.7%
Depreciation	4,241	4,339	2.3%	4,893	-11.3%	4,241	2.3%
Other non-recurring items				(2,061)	-100.0%	302	-100.0%
Operating income (loss)	2,224	3,503	57.5%	2,809	24.7%	2,241	56.3%
Interest and other income (expense), net	(686)	(792)	15.5%	(100)	692.0%	(472)	67.8%
Income (loss) before provision for income taxes	1,538	2,711	76.3%	2,709	0.1%	1,769	53.3%
Provision for income taxes	384	563	46.4%	358	57.3%	759	-25.8%
Net income (loss)	1,153	2,148	86.2%	2,351	-8.6%	1,010	112.7%
Tax rate	25.0%	20.8%		13.2%		42.9%	
Non-GAAP Reconciliation:							
Operating income (loss)	2,224	3,503	57.5%	2,809	24.7%	2,241	56.3%
Add: non-recurring items		27		(1,935)	-101.4%	921	-97.1%
Add: stock-based compensation	2,500	2,194	-12.2%	2,331	-5.9%	1,989	10.3%
Non-GAAP operating income	4,724	5,724	21.2%	3,205	78.6%	5,151	11.1%
Interest and other income, net	(686)	(792)	15.5%	(100)	692.0%	(472)	67.8%
Add: loss (gain) on unusual item							
Non-GAAP income before taxes	4,038	4,932	22.1%	3,105	58.8%	4,679	5.4%
Provision for income taxes	384	563	46.4%	358	57.3%	759	-25.8%
Non-GAAP net income (loss)	3,653	4,369	19.6%	2,747	59.0%	3,920	11.5%
Non-GAAP tax rate	9.5%	11.4%		11.5%		16.2%	
Non-GAAP operating income	4,724	5,724	21.2%	3,205	78.6%	5,151	11.1%
Add: depreciation	4,241	4,339	2.3%	4,893	-11.3%	4,241	2.3%
Add: other income (expense), net							
Adjusted EBITDA from continuing operations	8,965	10,063	12.3%	8,098	24.3%	9,392	7.1%
EPS	0.03	0.05	85.9%	0.05	0.7%	0.02	111.3%
Non-GAAP EPS	0.08	0.10	19.4%	0.06	75.2%	0.09	10.7%
Basic shares outstanding	43,605	43,539	-0.2%	43,593	-0.1%	43,405	0.3%
Diluted shares outstanding	44,524	44,612	0.2%	49,149	-9.2%	44,324	0.6%
Selected Balance Sheet Data:							
Cash and cash equivalents	5,670	4,206	-25.8%	3,006	39.9%	3,724	12.9%
Accounts receivable	18,759	22,225	18.5%	20,494	8.4%	18,591	19.5%
Fixed assets	24,135	25,272	4.7%	21,252	18.9%	23,376	8.1%
Goodwill and other intangible assets	151,900	151,900	0.0%	151,900	0.0%	151,900	0.0%
Accounts payable and accrued expenses	18,030	17,408	-3.4%	23,818	-26.9%	15,731	10.7%
Deferred revenue	45,111	49,971	10.8%	50,864	-1.8%	48,844	2.3%
Debt	40,000	38,000	-5.0%	30,000	26.7%	40,000	-5.0%
Stockholders' equity	106,778	107,542	0.7%	106,239	1.2%	103,088	4.3%
Sources: DHI Group; K. Liu & Company LLC							

DHI Group, Inc. (DHX)																			
K. Liu & Company LLC					1										т				
(\$000s)	FY '19(A)	FY '20(A)	FY '21(A)	FY '22(A)	<u>Q1 - Mar</u>	<u>Q2 - Jun</u>	<u>Q3 - Sep</u>	<u>Q4 - Dec</u>		Q1 - Mar(E)		Q3 - Sep	<u>Q4 - Dec</u>	FY '24(E)	Q1 - Mar	<u>Q2 - Jun</u>	Q3 - Sep	<u>Q4 - Dec</u>	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																			i
Other non-recurring items	2,237	37,808	1,919	(2,061)		2,115	302		2,417										I
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%
Tax Tate	23.170	0.170	01.070	-10.170	331.370	04.270	42.370	20.070	3.070	23.070	23.070	23.070	23.070	25.070	25.070	23.070	23.070	23.070	25.0%
Non-GAAP Reconciliation:																			i II
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	17,023	(32,330)	(1,732)	3,300	3/3	(23)	2,241	3,303	0,200	750	1,000	2,307	2,720	7,550	750	2,437	3,302	3,737	10,554
Add: non-recurring items	2,386	39,001	3,888	(1,616)	421	2,215	921	27	3,584										i III
Add: stock-based compensation	5,704	5,764	7,681	9,519	2,887	2,213	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
·		12.375	9.817	13.463	3.881		5.151	5.724	19.339	3.296	4.366	5.067		17.950	3.548	5.187	6.312	6.547	21.594
Non-GAAP operating income	25,115	,	-,-	-,	-,	4,583	-, -	- ,	.,	-,	,	-,	5,220	,	-,-	-, -	-,-	-,-	,
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															I — — — II
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)		0.09	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:																			i II
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
	101,133	12.,570	110,002	200,200	1 101,132	100,0	100,000	107,542	20.,5 12	110,107	110,070	11.,.05	121,002	121,002	12.,010	123,002	10.,107	100, . 10	133,3

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.