

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 Target \$ 7.00**

Price	2.12
Shares outstanding	46.8
Market cap	99.3
Cash and investments	4.2
Debt	38.0
Enterprise value	133.0
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	0.9x	0.9x	0.8x
EV/EBITDA	3.7x	3.8x	3.4x
P/E	5.7x	6.8x	5.6x

*In \$MMs expect per share data***Analyst Certification and Additional Disclosures Appear on Page 6.**

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## 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

	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22	Q1 '23	Q2 '23	Q3 '23	Actual	Estimated
									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		Current 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							
(\$000s)	Q4 '23(E)	Q4 '23(A)	Variance	Q4 '22(A)	Y/Y Growth	Q3 '23(A)	Q/Q Growth
<b>Revenues</b>	<b>35,915</b>	<b>37,287</b>	3.8%	<b>39,762</b>	-6.2%	<b>37,433</b>	-0.4%
Cost of revenue	4,950	4,948	0.0%	4,766	3.8%	4,971	-0.5%
<b>Gross profit (loss)</b>	<b>30,965</b>	<b>32,339</b>	4.4%	<b>34,996</b>	-7.6%	<b>32,462</b>	-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%
<b>Operating income (loss)</b>	<b>2,224</b>	<b>3,503</b>	57.5%	<b>2,809</b>	24.7%	<b>2,241</b>	56.3%
Interest and other income (expense), net	(686)	(792)	15.5%	(100)	692.0%	(472)	67.8%
<b>Income (loss) before provision for income taxes</b>	<b>1,538</b>	<b>2,711</b>	76.3%	<b>2,709</b>	0.1%	<b>1,769</b>	53.3%
Provision for income taxes	384	563	46.4%	358	57.3%	759	-25.8%
<b>Net income (loss)</b>	<b>1,153</b>	<b>2,148</b>	86.2%	<b>2,351</b>	-8.6%	<b>1,010</b>	112.7%
Tax rate	25.0%	20.8%	--	13.2%	--	42.9%	--
<b>Non-GAAP Reconciliation:</b>							
<b>Operating income (loss)</b>	<b>2,224</b>	<b>3,503</b>	57.5%	<b>2,809</b>	24.7%	<b>2,241</b>	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%
<b>Non-GAAP operating income</b>	<b>4,724</b>	<b>5,724</b>	21.2%	<b>3,205</b>	78.6%	<b>5,151</b>	11.1%
Interest and other income, net	(686)	(792)	15.5%	(100)	692.0%	(472)	67.8%
Add: loss (gain) on unusual item	--	--	--	--	--	--	--
<b>Non-GAAP income before taxes</b>	<b>4,038</b>	<b>4,932</b>	22.1%	<b>3,105</b>	58.8%	<b>4,679</b>	5.4%
Provision for income taxes	384	563	46.4%	358	57.3%	759	-25.8%
<b>Non-GAAP net income (loss)</b>	<b>3,653</b>	<b>4,369</b>	19.6%	<b>2,747</b>	59.0%	<b>3,920</b>	11.5%
Non-GAAP tax rate	9.5%	11.4%	--	11.5%	--	16.2%	--
<b>Non-GAAP operating income</b>	<b>4,724</b>	<b>5,724</b>	21.2%	<b>3,205</b>	78.6%	<b>5,151</b>	11.1%
Add: depreciation	4,241	4,339	2.3%	4,893	-11.3%	4,241	2.3%
Add: other income (expense), net	--	--	--	--	--	--	--
<b>Adjusted EBITDA from continuing operations</b>	<b>8,965</b>	<b>10,063</b>	12.3%	<b>8,098</b>	24.3%	<b>9,392</b>	7.1%
<b>EPS</b>	<b>0.03</b>	<b>0.05</b>	85.9%	<b>0.05</b>	0.7%	<b>0.02</b>	111.3%
<b>Non-GAAP EPS</b>	<b>0.08</b>	<b>0.10</b>	19.4%	<b>0.06</b>	75.2%	<b>0.09</b>	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%
<b>Selected Balance Sheet Data:</b>							
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							



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