

# HCKT Earnings Call Transcript

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Operator: Welcome to The Hackett Group Third Quarter Earnings Conference Call. [Operator Instructions] Please be advised the conference is being recorded. Hosting tonight's call are Mr. Ted Fernandez, Chairman and CEO; and Mr. Rob Ramirez, Chief Financial Officer. Mr. Ramirez, you may begin.

Robert Ramirez: Good afternoon, everyone, and thank you for joining us to discuss The Hackett Group's third quarter results. Speaking on the call today and here to answer your questions are Ted Fernandez, Chairman and CEO of The Hackett Group; and myself, Rob Ramirez, Chief Financial Officer. A press announcement was released over the wires at 4:09 p.m. Eastern Time. For a copy of the release, please visit our website at [www.thehackettgroup.com](http://www.thehackettgroup.com). We will also place any additional financial or statistical data discussed on this call that is not contained in the release on the Investor Relations page of our website. Before we begin, I would like to remind you that in the following comments and in the Q&A session, we will be making statements about expected future results, which may be forward-looking statements for the purposes of the Federal Securities Laws. These statements relate to our current expectations, estimates and projections and are not a guarantee of future performance. They involve risks, uncertainties and assumptions that are difficult to predict and which may not be accurate. Actual results may vary. These forward-looking statements should be considered only in conjunction with the detailed information, particularly the risk factors contained in our SEC filings. At this point, I would like to turn it over to Ted.

Ted Fernandez: Thank you, Rob, and welcome, everyone, to our Third Quarter Earnings Call. As we normally do, I will open up the call with some overview comments on the quarter. I will then turn it back over to Rob to comment on detailed operating results, cash flow as well as guidance. We will then review our market and with strategy-related comments, after which we will open it up for Q&A.; This afternoon, we reported revenues before reimbursements of \$72.2 million just below our quarterly guidance and adjusted earnings per share of \$0.37, which was at the midpoint of our quarterly guidance, respectively. What is most promising about the quarter is the level of breakthrough innovation, which has resulted in the highly differentiated capabilities of our AI XPLR platform version 4. Specifically, the reactions from both clients and potential channel partners to our version for release, which we announced on September 8, has been extremely positive with one potential partner specifically referring to our version 4 capabilities as being game changing. Correspondingly, we continue to work closely with several global channel partners and expect to announce alliances that could significantly expand our growth opportunity. Our ability to identify, design and build Gen-AI solutions based on client-specific processes and enterprise application automation footprints in accelerated time is powerful. It is allowing us to position our platform as an Enterprise AI Center of Excellence must have capability, which accelerates and enhances any client's Gen-AI adoption effort. Our version 4 of AI XPLR capabilities is attracting new clients, and it is resulting in an increasing pipeline and new engagements in this increasingly important area. During the quarter, we launched our alliance with Celonis, a leading provider of process intelligence software that provides clients with critical operating insight. By teaming with Celonis we have now demonstrated that we are able to ingest their process intelligence insight into AI XPLR as well as ZBrain to help identify high ROI Agentic AI solutions with unmatched speed and detail. We are now finalizing a way for our clients to easily integrate the Celonis operating insight into AI XPLR that will allow us to promote a special ideation joint offering to all of our respective clients. The combination of AI plus PI or Process Intelligence will allow customers to quickly move from intention to action with measurable impact resulting in Agentic transformation initiatives. Our GSBT segment revenues were favorably impacted by the strong GenAI

related revenue growth, which was offset by the expected weakness in our OneStream practice and the expiration of an IPaaS contract. Our IPaaS partner offered to redefine the agreement around an AI XPLR go-to-market partnership, which we rejected. We believe the current channel partner relationships we are considering will generate significantly greater value than what we were offered. Excluding the OneStream practice and IPaaS contract, our GSBT segment was up over 4%. Our Oracle Solutions segment was down as expected, although activity continues to be solid. Extended client decision-making has continued to make the revenue replacement of a large post-go-live engagement at the end of last year takes longer than we planned. This adversely impacted the second quarter and the third quarter, which is our peak Oracle prior year Q3 comparison, and we will -- and will continue to impact us into the fourth quarter. The result of this large client transition and our continued development of AI accelerator, our GenAI assisted technology implementation platform that allows us to deliver technology engagements more efficiently led to our decision to more aggressively reduce our head count to realize the expected GenAI productivity benefits and align with current requirements. Our SAP Solutions segment was up during the quarter as implementation revenues resulting from our increased software sales activity at the end of the quarter continued to ramp up. Although software sales in the quarter were lower than expected, we expect to make this back up with increased activity in the fourth quarter. Our new platform and implementation capabilities allow us to sell clients enterprise-wide from ideation to implementation in one fully integrated platform. It also provides a client with a single platform, which they can license to fully support their entire AI Center of Excellence initiatives. We continue to see Agentic transformation opportunities to emerge in many of our engagements as the need for GenAI capability and relevance continues to increase. These engagements also provide opportunities to certify strategically and more broadly. These capabilities should further expand through the new strategic alliances, which I said we expect to launch in the near future. That provides us with the increased opportunities to sell our unique capabilities in the upcoming year. On the executive advisory front, we continue to invest in our growing executive and vendor intelligence program. We launched the GenAI premium program. We have integrated our GenAI content into all of our executive programs and we also expanded our e-procurement intelligence capabilities with the acquisition of Spend Matters. On the balance sheet side, our ability to generate strong cash flow from operations has allowed us to maintain our dividend. And today, we are announcing a \$40 million Dutch tender offer to acquire approximately 8% of the company's common stock. This tender offer should be strongly accretive and on a cash basis, the reduction of the dividend payment due to the buyback is expected to offset a meaningful portion of the net of tax interest expense that we expect to incur. With that said, let me ask Rob to provide details on our operating results, cash flow and also comment on outlook. I will make additional comments on strategy and market conditions following Rob's comments. Rob?

Robert Ramirez: Thank you, Ted. As I typically do, I'll cover the following topics during this portion of the call. I'll cover an overview -- I'll provide an overview of our third quarter results, along with an overview of related key operating statistics. An overview of our cash flow activities during the quarter, and I'll then conclude with a discussion on our financial outlook for the fourth quarter of 2025. For purpose of this call, I'll comment separately regarding the revenues of our global S&BT; segment, our Oracle Solutions segment, our SAP Solutions segment and the total company. Our global S&BT; segment includes the results of our North America and international GenAI consulting implementation and licensing revenues, benchmarking and business transformation offerings, executive advisory, market intelligence and IPaaS programs and our OneStream and e-procurement implementation offerings. Our Oracle Solutions and our SAP Solutions segments include the results of our Oracle and SP offerings, respectively. Please note that we will be referencing both total revenues and revenue before reimbursements in our discussion. Reimbursable expenses are primarily project travel-related expenses passed through to our clients that have no associated impact on our profitability. During our call today, we will also reference certain non-GAAP financial measures, which we believe provide useful information to investors. Specifically, all references to adjusted financial measures will exclude reimbursable expenses, noncash stock-based compensation expense, all acquisition-related cash and noncash expenses, amortization of intangible assets and other nonrecurring items such as restructuring. We have included reconciliations of GAAP to non-GAAP financial measures in our press

release filed earlier today, and we'll post any additional information based on the discussions from this call on the Investor Relations page of the company's website. For the third quarter of 2025, our total revenues before reimbursements were \$72.2 million, a decrease of 7% over the prior year. The third quarter reimbursable expense ratio on revenues before reimbursements was 1.3% as compared to 1.6% in the prior quarter and 2.3% when compared to the same period in the prior year. Total revenues before reimbursements from our Global S&BT; segment were \$42.4 million for the third quarter of 2025, a decrease of 2% when compared to the same period in the prior year. Strong revenue growth from our GenAI consulting and implementation offerings in this segment was more than offset by weakness in our OneStream implementation offerings and the nonrenewal of a meaningful IPaaS contract during the third quarter. Excluding this decrease, our global S&BT; segment would have been up 4%. GenAI momentum is expected to continue in Q4 and accelerate in 2026. Total revenues before reimbursements from our Oracle Solutions segment were \$16.4 million for the third quarter of 2025, a decrease of 25% when compared to the same period in the prior year. This was higher than expected due to continued protracted decision-making. Total revenues before reimbursements from our SAP Solutions segment were \$13.4 million for the third quarter of 2025, an increase of 4% when compared to the same period in the prior year. This increase was primarily driven by implementation services that correspond to the volume of software sales in the last several quarters. Although software sales activity was lower than we expected in Q3, we expect this activity to be up meaningfully on a sequential basis in Q4. Approximately 23% of our total company revenues before reimbursements consist of recurring multiyear and subscription-based revenues, which include our executive advisory, application managed services and GenAI license contracts. We are seeing the rapid migration of IPaaS to AI XPLR and ZBrain related recurring revenue opportunities. Total company adjusted cost of sales totaled \$41.4 million or 57.4% of revenues before reimbursements in the third quarter of 2025 as compared to \$44.2 million or 56.8% of revenues before reimbursements in the prior year. Total company consultant headcount was 1,317 at the end of the third quarter as compared to total company consultant headcount of 1,382 in the previous quarter and 1,262 at the end of the third quarter of 2024. The third quarter reduction in headcount was due to actions taken to reduce staff to be commensurate with current demand and the expected productivity improvements from the leverage of our GenAI delivery platforms. Total company adjusted gross margin on revenues before reimbursements was 42.6% in the third quarter of 2025 as compared to 43.2% in the prior year. Adjusted SG&A; was \$16.5 million or 22.9% of revenues before reimbursements in the third quarter of 2025. This compared to \$17 million or 21.8% of revenues before reimbursements in the prior year. Adjusted EBITDA was \$15.3 million or 21.2% of revenues before reimbursements in the third quarter of 2025 as compared to \$17.7 million or 22.7% of revenues before reimbursements in the prior year. GAAP net income for the third quarter of 2025 totaled \$2.5 million or diluted earnings per share of \$0.09 as compared to GAAP net income of \$8.6 million or diluted earnings per share of \$0.31 in the third quarter of the previous year. Third quarter 2025 GAAP net income includes noncash stock compensation expense from our stock price reward program of \$4.8 million or \$0.17 per diluted share and acquisition-related cash and noncash compensation benefit of \$2.1 million or \$0.05 per diluted share. In addition, GAAP net income also includes a \$3.1 million or \$0.08 per diluted share restructuring expense for severance-related costs to reduce staff to be commensurate with current transition demand and expected productivity improvements from the leverage of our GenAI delivery platforms. Acquisition-related cash and noncash stock compensation items related to purchase consideration for the LeewayHertz acquisition. This consideration paid to the seller contains service vesting requirements and as such, is reflected as compensation expense or benefit under GAAP rather than purchase consideration. Adjusted net income and diluted earnings per share for the third quarter of 2025 totaled \$10.2 million or adjusted diluted net income per common share of \$0.37, which is at the midpoint of our earnings guidance range and compares to prior year adjusted diluted net income per share of \$0.43. The company's cash balances were \$13.9 million at the end of the third quarter as compared to \$10.1 million at the end of the previous quarter. Net cash provided from operating activities in the quarter was [ \$11.4 ] million, primarily driven by net income adjusted for noncash activity and a decrease in accounts receivable, partially offset by decreases in accrued expenses and contract liabilities. Our DSO or Day Sales Outstanding was 71 days at the end of the quarter as compared to 73 days in the previous quarter and

70 days in the prior year. During the quarter, we repurchased 1.1 million shares of the company's stock for an average of \$20.70 per share at a total cost of approximately \$22.9 million, including purchases from employees to satisfy income tax withholding triggered by the vesting of restricted shares. Our remaining stock repurchase authorization at the end of the quarter was \$12.6 million. At its most recent meeting, subsequent to quarter end, the company's Board of Directors authorized a \$40 million increase in the company's share repurchase authorization, bringing the available balance to \$52.6 million in order to accommodate the Dutch tender offer announced today. Additionally, the Board declared the fourth quarter dividend of \$0.12 per share for its shareholders of record on December 23, 2025, to be paid on January 9, 2026. During the quarter, the company borrowed \$21 million from its credit facility. The balance of the company's total debt outstanding at the end of the third quarter was \$44 million. Before I move to guidance for the fourth quarter of 2025, I would like to remind everyone of the seasonality of our business. Specifically, the increased holiday and vacation time that is historically taken in the fourth quarter will decrease our available billing days by approximately 8% to 10% when compared to the third quarter. Considering this, the company estimates total revenue before reimbursements for the fourth quarter of 2025 to be in the range of \$69.5 million to \$71 million. We expect global S&BT; to be down as continued growth from GenAI revenues will be more than offset by other segment revenue declines. We expect Oracle Solutions segment revenue before reimbursements to be down by 15% when compared to the prior year. We expect SAP Solutions segment revenues before reimbursements to be down when compared to the prior year because of lower software sales activity given exceptionally strong software-related sales in the prior year. We estimate adjusted diluted net income per common share in the fourth quarter of 2025 to be in the range of \$0.38 to \$0.40, which assumes a GAAP effective tax rate on adjusted earnings of 24.5%. We expect the adjusted gross margin as a percentage of revenues before reimbursements to be approximately 46% to 47%. We expect adjusted SG&A; and interest expense for the fourth quarter to be approximately \$18.7 million. We expect fourth quarter adjusted EBITDA as a percentage of revenues before reimbursements to be in the range of approximately 22% to 23%. Now let me provide some details regarding our tender offer that Ted mentioned. The company announced today that its plan to launch a tender offer to purchase up to \$40 million in value of its common stock at a price not less than \$18.30 nor more than \$21 per share. We expect to launch the tender offer tomorrow, which would mean it would expire on December 4, 2025. We plan to conduct a tender offer through a procedure commonly called a modified Dutch auction. This procedure allows stockholders to select the price within the specified range set by the company at which stockholders are willing to sell their shares. Neither management nor our Board members will be participating in this Dutch. The company will select the single lowest purchase price within the range that will allow the company to purchase \$40 million in value of shares at such price based on the number of shares tendered. All shares purchased in the tender offer will be purchased at the same price. The tender offer will only be made pursuant to the offer to purchase, the related letter of transmittal and the other tender offer materials, which the company will file tomorrow with the SEC. Any specific questions should be addressed directly with the dealer manager or the information agent for the tender offer. The contact information will be included in the press release we will issue tomorrow announcing the tender offer and in the tender offer materials being filed with the SEC tomorrow as well. We will utilize our existing credit facility for the purchase of the shares in the tender offer and the fees associated with this offer. Lastly, we expect cash flow from operations to be up strongly on a sequential basis. At this point, I'd like to turn it back over to Ted to review our market outlook and strategic priorities for the coming months.

Ted Fernandez: Thank you, Rob. As we look forward, let me share our thoughts on the near- and long-term demand environment and the growth opportunity it offers our organization. Although demand for digital transformation remains strong in traditional areas, it continues to be impacted by the thoughtful decision-making as organizations assess competing priorities due to economic concerns as well as the consideration of emerging GenAI technologies. The unlimited potential of GenAI will define an entirely new level of world-class performance standards driving all software and services providers to extend the value of their existing offerings with the introduction of Agentic AI capability. We believe this will result in unprecedented innovations, which all organizations will have to consider. This shift is consistent with our aggressive pivot to GenAI-enabled transformation, which we believe creates a

unique value creation opportunity for our organization. We believe Agentic Enterprise transformation is a generational opportunity, which will fundamentally change the way companies operate as well as the way consulting services are sold and delivered. Our GenAI platform capabilities in the recently released version 4 of AI XPLR leverages our proprietary solution language model, which, by the way, has a patent pending and Hackett process and performance IP, which significantly accelerates the speed in which we can identify and design Agentic AI solutions. Another critical distinction of our new version 4 is the way we can design the Agentic solutions while considering the client-specific enterprise application automation footprint. This allows the client to consider where existing automation supports GenAI enablement, allowing them to fully leverage the existing automation footprint where possible. This ability to evaluate and consider a client's current technology landscape to deploy Agentic solutions further differentiates our AI XPLR capabilities. We are clearly now at a point where AI XPLR will become a fully licensable platform, which provides several modular options to our clients. This is critical to our multiyear ARR growth vision. The LeewayHertz acquisition also included a sophisticated GenAI orchestration platform, ZBrain, which we agreed to contribute into a joint venture with the founder. The JV will bring together AI XPLR and ZBrain platforms and will focus on licensing the platforms and creating what we believe will be a first-of-a-kind GenAI ideation through implementation Software-as-a-Service offering. We believe this JV creates an entirely new value creation opportunity for our shareholders that should result from growth of ARR or annual recurring licensing revenues. It would also allow the JV to have the opportunity to raise capital and achieve stand-alone valuations due to the GenAI software focus if that is deemed best. Another critical investment that we have made is to build our own GenAI-assisted knowledge-based solution called at Hackett AI. At Hackett AI leverages our proprietary Hackett benchmarking, executive advisory and business transformation intelligence which allows us to define and enable digital world-class performance for our clients. Our IP will also be increasingly leveraged across all of our market-facing and service delivery platforms. We expect the integration of our valuable IP and content that leverages GenAI to significantly enhance and accelerate the delivery of our insight that we are asked to provide clients every day. We are ingesting and indexing all of our proprietary IP, including benchmarking best practices, transformation and research IP to support the myriad of queries that are required to support our executive advisory and consulting clients and associates. We have also embarked on a new initiative called Accelerator, which intends to also address the efficiency and quality of the delivery of our technology implementation-related services. All these initiatives are harnessing the power of GenAI to improve and accelerate the delivery of our solutions and services with the intent of differentiating our capabilities and will result in improved revenue growth margins. We see potential commercial value for these innovations beyond our internal use. Also in the works, Transformation XPLR, which will support all of our management consultants, and we are looking at special modules in data and governance, which we believe will also further support and differentiate the current AI XPLR capabilities. On the talent side, competition from experienced executives with high technology agility continues. Overall, turnovers continued at acceptable levels during the quarter, and we expect that trend to continue. Lastly, even though we believe we have the client base and offerings to grow our business, we continue to look for acquisitions and alliances that strategically leverage our IP, platforms and transformation expertise and can add scope, scale and capability, which accelerate our growth. It's important to say that those kinds of acquisitions are not easily available. As always, let me close by congratulating our associates on our innovation and performance and thanking them for their tireless efforts and always urge them to stay highly focused on our clients and our people no matter what challenges we may encounter. Those conclude my comments. Let me turn it over to our operator, and let us move on to the Q&A; section of our call. Operator?

Operator: [Operator Instructions] Our first question comes from George Sutton with Craig-Hallum.

George Sutton: Ted, you mentioned a plan -- you plan to announce alliances that could significantly change your opportunities. And you've been -- I know having discussions for the last couple of quarters. I believe the range has been SIs and large software companies. Can you give us a sense of what's practical for us to assume in terms of what you think you can accomplish and when. .

Ted Fernandez: Excellent question, George. Look, George, our ability to achieve that has significantly increased with the release of version 4. I can't overemphasize what a significant, I'll call it, leap in

capability version 4 has resulted in the reaction from both prospective clients and prospective channel partners. So as you know, yes, we started -- we had initial conversations with an enterprise software company toward the tail end of Q2. Those conversations moved to companies like Celonis, also an enterprise application company, which resulted in their alliances. Then we walked away from an offer with one of the large SIs that just we believe there were opportunities with others that would be just significantly greater value. We're currently in conversations with 2. We have every expectation that there is a strong desire on both parts to reach an agreement that's meaningful to both sides. I can also tell you that the enterprise application opportunity that surfaced late in Q2, which I somewhat have put set aside as the -- again, we had to do one thing. We stopped the licensing procedure to complete the licensing procedure for version 3 as Q2 was finishing. We worked our tails off to make sure that the innovation that we targeted for version 4 was achieved. We launched that on September 8. We think that the capabilities are significant and are being clearly acknowledged by these potential partners. What if I told you that before I got on the poll today, I had a request from one of the big 4 asking if our platforms were also available to purchase or license. So I believe that the capability that we're demonstrating when we get in front of clients is becoming more visible. I believe that it helps that these large partners are participating in a process, putting us through this to demonstrate proof points to demonstrate the capabilities of our platforms. That has also expanded, I'll call it, visibility to our capabilities. So yes, we remain confident that we will be able to attract 1 or 2 major alliance partners in the near future.

George Sutton: Got you. On the software side, you mentioned that you had signed some new business, and you should be able to make up some of the weakness in Q4. Can you just walk through that a little bit.

Ted Fernandez: Look, there is no doubt -- again, I'll go back. The impact of version 4 and our ability now to move clients more aggressively has accelerated since we introduced that on September 8. Client engagement has improved. Pipeline activity has improved and the engagement that we see now considering I'll call it, meaningful kind of engagement with AI XPLR as potentially picking up a significant level of responsibility for a client's AI Center of Excellence. All of those things is what's increasing our engagements and pipeline into Q4 around GenAI. We think that will continue to happen naturally. And yes, we want the acceleration from 1 or 2 or the right channel partners that would then really allow us to then dramatically improve our visibility and access to the largest GenAI opportunity. So it's all of the above, George. It's all of the above.

George Sutton: Okay. Last question for me. Just on the Dutch auction, I'm just curious why a Dutch auction and why do a Dutch auction now?

Ted Fernandez: Well, we had that question asked by some of our shareholders at the end of Q2, actually. And I didn't want to miss the opportunity to be able to acquire stock during what we knew was a more volatile Q3, given the guidance that we have provided, and understanding what that looked like. Now that we got through the end of the quarter, then I had the same question, do we continue to buy back our stock aggressively in the open market? And we thought the best way to start doing that was to tender for \$40 million and provide the range that was articulated today so that we could be even more aggressive than we were in Q3. As you know, we've got a pristine balance sheet. We've rarely used it. We believe that the debt post this Dutch and the aggressive cash flow generation we normally didn't anticipate in Q4, will have us somewhere around 1x EBITDA by the time this whole process is over. And we know that's, that's virtually no leverage. So if we continue to believe our prospects are what they are, we will continue to be aggressive with our buybacks.

Operator: [Operator Instructions] I would now like to introduce Jeff Martin with ROTH Capital Markets.

Jeff Martin: Ted, could you give us an update on where you are with licensing progress so far with both ZBrain and XPLR. I mean, obviously, XPLR version 4 being launched in September, likely not a ton of traction there yet, but maybe give us some perspective on those clients that were potentially looking at licensing version 3, propensity to license version 4 in the next 6 months or so?

Ted Fernandez: So as I mentioned in our comments, we were ready to have version 3 and fully licensable form for early in the third quarter. Once we saw the potential enhancements that were coming from version 4, we stopped all that licensing effort. It doesn't mean we didn't -- we don't have a lot accomplished, but -- we've completed version 4. We're still making some enhancements, but we

expect to license -- start licensing XPLR sometime late into Q4, no later than the beginning of Q1. And we expect that many of the opportunities that we're currently fielding or responding to will become AI XPLR licensees.

Jeff Martin: And on the ZBrain side .

Ted Fernandez: On the ZBrain side, since the ZBrain side is differentiated to AI XPLR, yes, we would expect a portion, I don't know if it's half or 1/3 of the AI XPLR led licenses to incorporate ZBrain as well.

Jeff Martin: Okay. And then I was just curious if you could break down S&BT; a little more. You did mention it grew 4%, excluding OneStream and the IPaaS contract termination. But could you help us get a sense of the trends within the pieces of S&BT.;

Ted Fernandez: I mean, look, the largest piece of S&BT; is our Strategy and Business Transformation Group. So these are the teams that do large transformation initiatives. So that represents -- I'm going to go, I don't know. Clearly, more than half in GSBT, then you also have our executive advisory business, which includes our executive advisory programs as well as the market intelligence programs. We also have our benchmarking services in there. And it does include the OneStream practice, the licensing, which we had in IPaaS, and now it includes all of the GenAI-related revenues. That business, I don't know, Rob will have to correct me, but represents more than half -- represented more than half of our revenues in the quarter. It represented nearly probably short of this, 2/3 of our operating profit, we believe that, that business by the end of '26 will probably drive over 75% of our total operating profits with GenAI, I'll call it, lead Agentic transformation or GenAI transformation initiatives, which include both GenAI, but also you have to deal with the existing clients if you call them, the existing business process and enterprise applications that also need to be transitioned when you're deploying Agenda workflows. So we expect that halo effect, probably the best way to say it. We expect that the majority of our Strategy and Business Transformation business, executives will end up leading GenAI initiatives and we expect once the GenAI initiatives become more mature, you will also see halo effect back into these traditional transformation initiatives, which require you to fully implement the changes. So right now, we're in the ideation and solutioning, ideation, design and solutioning portion of these GenAI engagements. As those engagements mature, they will create a halo effect to the largest portion of GSBT. That's why we always kind of look and say, GSBT, sometime in the future will drive a greater portion of our total profit. Hopefully, it also comes with more recurring revenue, which will result in higher gross margins and will be a substantial portion of our total value creation, if you look a year out or 2 years out.

Jeff Martin: One other question. With respect to decision making, are you seeing any jamming of the logs there, is it getting a little better? Is it getting a little worse, the same? Just kind of some directional trend would be helpful.

Ted Fernandez: What I can say is clearly better as clients making a '26 commitment, but our clients protecting '25 spend since economic volatility and some of the tariff distractions ended up creating a more difficult 25 years. So I'm going to say economic volatility, tariff distraction, and to some extent, people pausing to decide the impact of GenAI on their total IT and related initiatives are impacting it. But at the same time, do I see clients clearly positioning for an Agentic enterprise in an Agentic transformation world, which brings all I'll call, new and existing capabilities that will have to be transformed or better said, yes, but is it really changing? No. We expected it to be tough through the end of the year. I see people protecting '25 earnings for obvious reasons. And -- but I see an increasing level of activity with people wanting to aggressively invest and expand on both, I call it, traditional digital transformation as well as digital transformation that have a meaningful GenAI component. We believe that meaningful GenAI component will increase throughout 2026.

Operator: Our next question comes from Vincent Colicchio with Barrington Research.

Vincent Colicchio: Ted, do you currently have the labor resources in GSBT to meet current AI demand? And do you have any concerns about that?

Ted Fernandez: Not at all, especially with the productivity improvements of our Accelerator and transformation XPLR products. I mean, Vince, what you've got to understand is that the work that we have done traditionally and will do going forward, will be increasingly done by platforms that allow you to do that, delivering more value to -- allowing it to be more compelling and complete for clients in reduced time frames. So growth will be less determined by head count growth, and it will be a

combination of sophisticated platforms that bring talented professionals to bear to help clients identify opportunities, design opportunities and build and deploy those opportunities. So no, I don't believe that head count is an issue for the balance of the year as we start 2026. If it had been, we wouldn't have taken the reduction that we did with our restructuring charge in the current quarter.

Vincent Colicchio: And circling back on version 4, just what is it that's game changing versus the other alternatives in the market? Is it the speed? Or is it more than that?

Ted Fernandez: No, it's much more than that. First what we had built in version 3, that's still very compelling that we walk into a client in any area of the business across 26 industries and we can walk into a client and say, we have the ability to simulate and we have fully detailed thousands of AI solution opportunities for clients. So we start with this very strong simulation capability that we have built in version 3. What really changed from version to version 4 on that was that our ability to inform the actual capability client's capability from its existing technology or automation footprint we got really, really good at driving that -- the way we inform that automation information down to process or, in some cases, subprocess level, by capturing that client's automation, existing automation footprint. So that single step resulted in much more powerful ideation capabilities and that not only impacted our ability to get in front of a client and say, before I recommend something significant to you. I want to make sure that as I do that, we want you to know that we fully considered your automation footprint. That capability did not exist in version 3, and it didn't exist at the level we've been able to take it down the process at subprocess level. So that was very, very meaningful. That also really opened up our ability to really gain more information around the data sources that we were going to be dealing with, both from the existing client technology footprint and our ability then to consider additional data sources to then improve clients, call it, data sources and knowledge base to make the solutions that we are recommending smarter, more compelling, so that was kind of also a meaningful step between version 3 and version 4. And then the star of the show is that -- we were able to take solutions that we have been delivering. This is not only detailing the to-be process of a solution that was going to be significantly influenced by Agentic workflow and that integration of both, but our ability to now identify those enhancements and that to be processed, be able to integrate the agents and explain the role of the agents in those changes and do it at the level of detail that we're currently delivering was more significant than version 3, but we were doing the version 3 work primarily, I'll call it, through hours through deployed expertise and what really happened is that our Hackett solution language model has just gotten so sophisticated that we were able to take something that was happening over a 4 to 6-week period with numbers of professionals and do that now in what we just find as an 80% solution in less than an hour, the proposed solution, which then allows us then front and engage the client on validating the output so that we can get really detailed, really specific so that recommendation of both complexity, the details required, the benefit that you're going to deliver that we then carry into POC. It's just been dramatically improved I think once we were able to get those capabilities in front of our clients, the way we have post call mid-September when we were able to do -- show this to potential partners and have partners literally say, so what do you need? And we say, give us this information and allow us a couple of days to come back to you with detailed recommendations in an area that they were, I'll call it, for whatever reason, evaluating in one of their current clients or in a future contract in our ability, and that's what we're currently doing with them. What we're doing right now are proof points by taking specific live situations and demonstrating that the capability of XPLR of version 4 is actually distinctly better, more detailed, more accurate, which allows for a better estimation of effort of determining complexity so that when you align benefits to those costs, the ROI is significantly improved. That capability is what's allowing us to now impact either a new client and say, let us show you how different it is. And now these channel partners, let us show you how different it can be and they'll literally say, well, we have one. We were working through one on a very significant client prospect for one of the clients, and they gave us this high-level information said, can you give us this information of specifically the process you're targeting, the information you have around that targeted process. And they said to us -- so look, when am I going to be able to see this? Am I going to be able to see this in a month or what? And I said, call us back in 2 days and we literally get that and use our 2 days then to validate what XPLR is creating. And it's just -- it's just really, really impressing them. And yes, to the point where one of them simply said, this is game changing. And we hope they really mean it. We hope they become a great

partner with us and as soon as possible.

Vincent Colicchio: Appreciate all the color.

Ted Fernandez: I think it's important because we -- the future of the firm depends on unique capability, which is enhanced by very talented people, but without the unique platform capabilities and improving that solutioning language model and informing that solutioning language model with all of the Hackett IP that we have all the way down the process and subprocess level, including benchmark. I think it's hard to replicate. I may wake up tomorrow and somebody say, Ted, I've got something dramatically better. Right now, these sophisticated clients and the sophisticated channel partners are saying -- we have not seen anything that produces the outcomes that you're currently providing to us as part of our, if you call it, proof points.

Operator: At this time, I show no further questions. I would now turn the call back over to Mr. Fernandez.

Ted Fernandez: Thank you, operator. Let me thank everyone for participating in our third quarter earnings call, and we look forward to updating you again when we report the fourth quarter and our total annual results. Thank you again. .

Operator: Thank you for your participation. Participants, you may disconnect at this time.