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NRC Health (NRC)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone. Thank you for joining us and welcome to the NRC Q3 2026 Earnings Call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions] I will now hand the conference over to Jordan Freeman, NRC Health's Chief Accounting Officer. Jordan, please go ahead.

Jordan N. Freeman

Vice President-Finance, NRC Health

Thank you, operator. Welcome to NRC Health's earnings conference call for the third quarter ended September 30, 2026. I wanted to first let you know that we posted our earnings press release in the Investor Relations section on our website. On the call today, we have NRC Health's CEO, Trent Green.

Before getting started, I'd like to emphasize that this call will include statements related to the expected future results of our company, which are therefore forward-looking statements. Our actual results may differ materially from our expectations due to a number of risks and uncertainties, including those described in our earnings release and other SEC filings.

Today's remarks will also include references to non-GAAP financial measures. Additional information, including definitions and reconciliations between GAAP financial information and non-GAAP financial information, is provided in the corresponding earnings press release, which is posted on NRC's Investor Relations website. A replay of this call will also be posted to the same website.

I will now turn the call over to Trent.

Trent Green

Chief Executive Officer & Director, NRC Health

Thank you, Jordan, and good afternoon, everyone. Thank you for joining us for NRC Health's third quarter 2026 earnings call. We delivered a strong third quarter with results that demonstrate both the progress we've made throughout 2026 and the fundamental strength of NRC Health's business model. Revenue grew 11% to $38

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million, a meaningful acceleration from the 4% growth we reported the first half of the year. Part of this growth was attributable to the large customer implementation we discussed earlier this year, which went live on schedule and contribute revenue for the full quarter. Adjusted EBITDA margin improved sequentially to 28% and would have been greater, but for the pull forward of our Human Understanding Beyond or HUB annual customer conference from the fourth quarter last year to the third quarter this year. This affected margin comparison by 4 percentage points.

Total recurring contract value or TRCV grew 9% to $154 million, driven by durable customer relationships and strong renewal performance with the new business building on that base. As TRCV converts into revenue, our scalable operating model will create the opportunity for greater profitability and free cash flow. Those measures will not move in a straight line every quarter. Enterprise purchasing decisions, implementation timing, and seasonal revenue patterns can create variability. What matters is a multi-quarter progression of the business, and that progression is clear. We have returned NRC Health to growth and are beginning to see the operating leverage that growth can create. Today I'll focus on three areas: the strength of our customer relationships, the breadth of demand across our portfolio, and how that momentum is translating into revenue, profitability, and cash flow.

Let me begin with the large multi-solution agreement we discussed on our first quarter call. The experience platform went live as planned in July and contributed a full quarter of revenue in Q3. Because we invested in delivery capacity ahead of the implementation, that revenue is now absorbing those costs and contributing to sequential margin improvement. As I described in earlier calls, this customer selected us not simply to measure experience but to improve it and for our ability to connect insight with action across one of the most complex health care delivery organizations in the country.

We remain on track to implement the enablement portion of the agreement, our rounding platform, in the third quarter of 2027. We expect to leverage much of the infrastructure already in place to support that next phase.

The quarter also reinforced the strength of our broader customer relationships. Several long-standing customers moved from annual agreements to multiyear agreements, reflecting confidence in the value NRC Health delivers and increasing the visibility of our recurring revenue base. Our sold-out HUB conference provided another indication of the depth of those relationships. Hundreds of health care leaders joined us to share ideas, learn from one another, and engage with our team. The conversations reinforce what we consistently hear from our customers. They value NRC Health not simply as a source of data, but as a trusted health care partner that combines expertise, responsiveness, and a shared commitment to improving outcomes. That trust, together with focused execution by our Customer Success Team and continued product enhancements, is supporting strong retention.

Growth is also broadening beyond our core experience solutions. Last year, we created dedicated commercial teams for Market Insights and The Governance Institute, and we are now seeing the benefits of those decisions. Market Insights delivered its strongest quarterly sales performance since before the pandemic, including adding several new logos during the quarter. The Governance Institute is demonstrating similar momentum as the improvements to our offerings and dedicated sales force have us on track to deliver our strongest sales year in more than a decade.

These results are strategically important because they show how our capabilities reinforce one another. Market Insights brings NRC Health into enterprise strategy and consumer decision making. The Governance Institute extends our relationships to boards and executive teams, and our experience in enablement solutions help translate those priorities into operating action. That connectivity expands our relevance across the customer

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organization, creates additional opportunities to deepen relationships, and strengthens our differentiated value proposition.

Our product strategy remains focused on extending NRC Health from measuring experience to helping organizations improve it. We're pursuing that objective in two connected waves: expanding the insights we provide, so leaders can understand more of the health care journey and expanding our enablement capabilities, so frontline teams can turn that understanding into action through their everyday workflows. We're piloting AI-enabled capabilities that make NRC Health's data easier for leaders to access and use, adding AI-driven enhancements to existing solutions, and extending our listening into additional moments across the health care journey. These initiatives remain early in their adoption, but they reflect a clear direction: make our information more accessible, our insights more actionable, and our solutions more deeply integrated into health care operations.

Before I go into more details of our financial results, I want to thank Shane Harrison for his contributions to NRC Health over the past year and wish him well in his next chapter. We've launched a search for our next CFO and are actively evaluating candidates. In the meantime, our finance team is operating smoothly, and I'm confident in our ability to execute through this transition.

TRCV was $154 million at the end of the third quarter, representing growth of 9% year-over-year. Growth was led by experience with meaningful contributions from Market Insights and The Governance Institute. Revenue was $38 million, up 11% year-over-year, and accelerating meaningfully from the 4% growth we reported for the first half of 2026. This included the first full quarter contribution from our large customer implementation. Importantly, that implementation represented less than half of our Q3 revenue growth. The remainder came from broad-based strength across our portfolio. That is how our recurring revenue model should work. TRCV growth proceeds revenue as implementations ramp, and the growth in our contract base over the past several quarters is now appearing in our reported results. When TRCV is growing, revenue growth should follow.

Adjusted EBITDA was $10.9 million, representing a margin of 28%, up from 27% in the first half of the year. One timing note, our HUB conference move from the fourth quarter last year to the third quarter this year. As our largest conference and investment and partner convening, the expenses affected EBITDA margin by approximately 4 percentage points. We were pleased that the sequential margin improvement overcame this hurdle. Third quarter adjusted EBITDA was down 3 percentage points year-over-year. However, this will reverse in the fourth quarter when the margin comparison will benefit.

During the first half of the year, our cost structure included investments made ahead of revenue, particularly the people and delivery resources required for the large customer implementation. With that implementation now contributing a full quarter of revenue, those investments are being absorbed as expected. The delivery capacity required to support our current implementations is in place. As additional implementations go live and produce revenue, we expect those incremental dollars to contribute at attractive margins. We expect further sequential margin improvement in Q4, although I would remind investors that fourth quarter margins have historically benefited from the seasonality of certain revenues and should not automatically be treated as a new quarterly run rate.

Net income was $4.7 million this quarter, as was adjusted net income, both reflect the reversal of stock-based compensation expense for the outgoing CFO net of ongoing grants. Our effective tax rate in the quarter was approximately 36%, down from 40%, due to a decrease in non-deductible items related to the CFO departure. Free cash flow was $7 million during the quarter, driven by a net change in receivables and deferred revenue and reduced capital expenditures as we completed our headquarters build out last year.

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Our capital allocation framework remains consistent. Our first priority is investing in the capabilities that produce long-term value for our customers and shareholders, including our products, delivery infrastructure, and people. We also returned capital to shareholders through our regular dividend and opportunistic share repurchases. During the quarter, we paid a dividend of $0.16 per share and repurchased approximately 790,000 shares under our existing $60 million authorization. We evaluate repurchases relative to other investment alternatives and act when we believe they offer an attractive risk-adjusted return, while maintaining an appropriate leverage profile and preserving flexibility for strategic M&A.

Across these options, our objective is the same: compound free cash flow per share over time. As we look ahead, we enter the fourth quarter with a stronger recurring revenue base, the large customer implementation operating as planned, strong retention, and sustained commercial momentum across experience, Market Insights, and The Governance Institute.

We expect the conversion of TRCV into revenue to continue, accompanied by further progress in profitability and free cash flow. We do not expect every measure to accelerate sequentially in every quarter. Enterprise sales timing, implementation schedules, customer events, and seasonal revenue patterns will create variability. We believe the more meaningful measures are the durability of our customer base, growth in total contract value, conversion of that value into revenue, and our ability to translate revenue growth into earnings and cash flow.

Across those measures, NRC Health is in a stronger position today than it was at the beginning of the year, and we are well positioned for the fourth quarter and 2027.

And with that, I'm happy to take your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Constantine Davides with Citizens Bank. Your line is open. Please go ahead.

Constantine Davides
Analyst, Citizens JMP Securities LLC

Q

Hey, Trent. Good evening.

Trent Green
Chief Executive Officer & Director, NRC Health

A

Hi, Constantine.

Constantine Davides
Analyst, Citizens JMP Securities LLC

Q

I wanted to – I got a few questions. I wanted to start first with maybe the macro backdrop, more specific the pipeline and sales cycle dynamics. I know earlier in the year you talked about the Press Ganey/Qualtrics merger and just some related softness and delays. Just wondering if you can just update us there on that. And is that still something you're continuing to work through?

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Trent Green
Chief Executive Officer & Director, NRC Health

A

Yeah. Thanks for the question. So, the market this year, we've seen fewer experience management RFPs this year, but that has not impacted our opportunity pipeline. It remains very strong. In fact, a number of deals in our pipeline has increased. And I think one thing I'd particularly note is that the clarity and the certainty of NRC's current offerings, our product road map, and our delivery model are really resonating with our existing customers as evidenced by some longer-term renewals that we were able to secure in this quarter as well as the growth that we saw in this quarter and the continued strength in our pipeline.

Constantine Davides
Analyst, Citizens JMP Securities LLC

Q

You just touched on kind of my second question, which was going to be around renewals. You called out the multiyear arrangements in the press release. And I guess my sense was this year has been maybe a little bit up and down in terms of retention. I'd love to understand just how that's progressed throughout the year just from a like a retention rate standpoint, number one.

Number two, to what extent – I mean, it's great you're able to extend these customers into multiyear arrangements. But I'd love to understand are you able to sort of upsell them, or how are attach rates changing in your current renewals cycle?

Trent Green
Chief Executive Officer & Director, NRC Health

A

Yeah. Great. Great question. Our retention remains very strong. And as we noted, we had several – these are long-standing customers. They've been on annual agreements. But given, like I said, kind of the confidence in our offering, in our partnership model, we were able to extend them or secure them into longer term agreements, which makes, in many respects, their lives easier and it certainly increases the visibility for us in our recurring revenue base.

One thing that is important, remains very important, Constantine, we've talked about this in the past, is the connective tissue between and among our offerings. And so, we continue to work really hard to connect the dots between and among our products. And cross-sell remains a very important initiative for us. So, certainly, as we are engaging with our customers about renewal on whatever product it is, we are also endeavoring to expose them to what we're doing across our entire portfolio of services.

Constantine Davides
Analyst, Citizens JMP Securities LLC

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Great. And then, I guess, just the last couple of questions. The large customer implementation, great to see that that went live on time and you got a full quarter of revenue from that. It sounds like the expenses from the first phase are completely or almost completely leverageable into the second phase. So, I want to be clear. Is that correct, number one? And then, two, how does the second tranche of revenue compare to the first tranche on a relative basis?

Trent Green
Chief Executive Officer & Director, NRC Health

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Yeah. So, yeah, thanks for the question. As you recall, we were pretty clear we were investing ahead of implementation for this particular customer. And so, it is nice now. Yes, we're getting the revenue offset on that expense. We will roll out the rounding phase. Q3 of 2027 is when that will go live. The revenue may lag a little bit

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on that. We can maybe go offline with you, Constantine, to give you a better sense for exactly when the revenue will be recognized for that portion of the agreement. [indiscernible] (00:17:45) with the increase. But it's a much smaller, much – a meaningful but much smaller revenue base relative to this first phase.

Constantine Davides
Analyst, Citizens JMP Securities LLC

Q

Okay. And I guess with respect to this customer, I'd love to understand what kind of feedback you've been getting both – obviously it's a very sizeable, very knowledgeable customer. I'd love to understand the feedback both from an implementation experience standpoint, but also just their early experience as using your platform relative to what they had been using.

Trent Green
Chief Executive Officer & Director, NRC Health

A

Yeah. Thank you. The feedback has been very positive across the enterprise. In fact, I just saw a – I just saw kudos that came across in an internal communication from one of their hospitalists who commented on the ease of use, so this is a doctor who practices inpatient medicine who got access to some of our reports and complimented us on this. Hearing volume of feedback is much greater than what they had enjoyed previously. So, they're very pleased with our real-time platform and the expansion in terms of capture the number of voices that they're hearing from. We continue to work with them on just getting – ensuring that the reports are delivered to them in the way in which they want them, but they like the nature of our – you subscribe to a report. So, if you are a nurse leader or a physician leader, we push information to you. And they're enjoying that as opposed to at least what I understand was their prior experience where it was more of a pool of information.

So, again, early days, but the feedback has been very positive across the organization. And I'm very proud of how our team has worked to implement this, again, large customer, but we did it very efficiently, effectively, and, frankly, very seamlessly.

Constantine Davides
Analyst, Citizens JMP Securities LLC

Q

Last one for me. It sounds like we should still expect a sequential margin step-up in the fourth quarter. Anything from a revenue standpoint you'd call out as we sit here at the end of October? Just trying to get a little color on how to model the last quarter of the year.

Trent Green
Chief Executive Officer & Director, NRC Health

A

Yeah. I mean, you could expect further sequential improvement in Q4 from a margin perspective as it relates to the HUB conference has been absorbed and as existing implementations continue to contribute. And we don't provide specific longer-term target on growth. But I would just say that the underlying conditions support continued growth for us as – and particularly as we're able to activate some of these Market Insights and Governance Institute products that we've sold. So, you also see that.

And then just as a reminder, we do see some seasonal revenue in Q4. There a couple of our product offerings where we do kind of onetime events. Think about like employee experience where you do a once-a-year employee experience survey. That generates a onetime uptick in seasonal revenue that you'll experience in Q4.

Constantine Davides
Analyst, Citizens JMP Securities LLC

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Super helpful. One more follow-up on that. Does HUB have any revenue in the third quarter? Is it all expense?

Trent Green
Chief Executive Officer & Director, NRC Health

A

There's an offset of revenue, small amount of offset of revenue.

Constantine Davides
Analyst, Citizens JMP Securities LLC

Q

Okay. Okay. All right. Thanks for taking all the questions.

Trent Green
Chief Executive Officer & Director, NRC Health

A

Yeah, thank you.

Operator: There are no further questions at this time. I will now turn the call back to Trent Green for closing remarks.

Trent Green
Chief Executive Officer & Director, NRC Health

Well, thank you. Thanks for the questions and thanks all for joining us today. The third quarter reflects the progress we've made in returning NRC Health to growth and the fundamental strength in our business model. Strong customer relationships provide a durable recurring revenue foundation. New business builds on that foundation, and as our growing contract base converts into revenue, we're beginning to see the resulting benefits in profitability and free cash flow.

I continue to be incredibly grateful to our associates for their execution and to our customers and shareholders for your continued trust. We enter the fourth quarter with confidence in our direction and look forward to updating you on our full-year results. Thank you.

Operator: This concludes today's call. Thank you for attending. You may now disconnect.

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