

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

CBIZ, Inc. (CBIZ)



STEVEN L. GERARD, Chairman and Chief Executive Officer of CBIZ, Inc., was appointed as CEO and a Director of the company in October 2000 and Chairman in November 2002. Immediately prior to joining CBIZ, Mr. Gerard served for three years as Chairman and CEO of Great Point Capital, Inc., a provider of operational and financial advisory services to business clients. Before that, Mr. Gerard served as Chairman and Chief Executive Officer of Triangle Wire & Cable, Inc. Prior to commencing the turnaround of Triangle, Mr. Gerard spent 16 years at Citibank, NA, where he ultimately served as Senior Managing Director, responsible for the risk management of \$80 billion of Citibank's commercial and investment banking activities in the United States, Europe, Australia and Japan. Mr. Gerard began his career at the American Stock Exchange where he last served as Vice President of AMEX's Securities Division. Mr. Gerard currently serves on the Board of Directors for Lennar Corporation, Fairchild Corporation, TIMCO Aviation Services, Inc., and Joy Global.

(ADT603) TWST: Would you describe CBIZ? I believe the company used to be known as Century Business Services.

Mr. Gerard: Yes, last June we formally changed our name from Century Business Services, Inc., to CBIZ, Inc. CBIZ is a leading provider of business services. We offer our core services primarily to mid-sized clients on a regional basis throughout the United States, and our national practice services to larger domestic companies. We have a little under 5,000 employees, more than half of whom are professionals. We have over 80,000 clients. We are in 15 major markets, but we actually have business operations in 34 states.

The professional business services that we provide really break down into three categories. One is financial services, which includes accounting, tax, valuation, internal audit, Sarbanes-Oxley Section 404 consulting, M&A, medical billing and financial advisory. That is our financial services area. We are among the top valuation firms in the United States. We are the eighth largest

accounting firm in the United States and the second largest medical billing company.

Our second major area is our employee services. There we offer group health, payroll, human capital advisory, COBRA, Flex, workers' compensation, retirement services, property and casualty insurance, life insurance and wealth management products. The third is our technology area, which is focused on software solutions, hardware, networking, consulting and monitoring.

We help our clients succeed by helping them better manage their finances, their employees, and their technology services. We are organizationally divided into three groups — our accounting, tax and advisory group, our insurance and benefits group, and our national practices. Our core services are those services that we provide locally to our clients.

In our market, a business owner or entrepreneur typically buys their accounting service, their insurance products, their health products, their COBRA business, their payroll and their IT business locally or regionally.

We are ranked the largest healthcare benefits-broker in the United States, and we are within the top 15 of all insurance brokers in the United States.

Our national services are really focused on larger companies who do not necessarily buy locally. These include valuation, Sarbanes-Oxley Section 404 compliance, internal audit work, human capital, and IT consulting & monitoring services.

From a revenue standpoint, if you look at year-end 2005, about 44% of our revenue came from the accounting, tax and advisory business, about 25% from the benefits and insurance, and the balance from the national practices, and the pretax splits out pretty close to that.

What makes us unique in the market is our broad geographic and industrial client base, our focus on the middle market, our very strong regional presence and the fact that we have our own payroll business, which represents a platform for providing other insurance and benefit services.

ing the benefits, defining our corporate culture and doing the things necessary for an effective marketing program. We divested or consolidated over 30 of the businesses that had been acquired in the late 1990s. We resolved the outstanding litigation and we began to aggressively reduce the debt that existed at the time, while integrating the businesses that had been previously acquired.

By 2003, the company had become debt-free for the first time in company history. In 2000, the company had 100 million shares outstanding — too many shares for \$0.5 billion revenue company. So we concluded a tender offer in 2003 where we repurchased about 9.9 million shares. We did three or four strategic acquisitions, launched an investor relations program, and began to focus on co-locating our businesses. In 2004, we completed another tender offer, completed a few more strategic acquisitions, and really began to increase our focus on margin improvements. In 2005, we completed another three acquisitions, repurchased some more shares in open market purchases and launched our wealth management and human

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CBIZ was founded in 1996 by Mike DeGroot, who was formerly Chairman and CEO of Laidlaw in Canada. He founded the company on the premise that if you could combine local insurance business with local accounting firms, you could cross-sell our services and provide more solutions from one trusted source. The term we prefer for cross-selling is “cross-serving,” meaning that you can better serve your clients by providing multiple solutions. From 1997 to 1999, the company was a rollup of middle-market servicing businesses. CBIZ made 143 acquisitions in a 30-month period of time. It did not focus enough on the integration of the businesses and basically experienced all of the problems that you can imagine when you make that many acquisitions in that short of a period of time.

The management team running the business today has been in place for the last five years. The CFO and I came in at the end of 2000, and the current management team was reorganized at that time. From 2000 to 2002, we focused on strengthening the infrastructure, putting all business units on the same computer system, standardiz-

capital advisory businesses. So far in 2006, we’ve completed two acquisitions and recently announced our Board of Director’s authorization to repurchase up to 5 million shares.

Since 2003, we have purchased 25 million shares of our stock at a cost of about \$100 million. The cross-serving revenue has been going up every year; it was \$6.5 million in 2003, \$10 million in 2004 and almost \$14 million in 2005. This cross-serving represents incremental revenue that we are able to generate by offering our products and services to our existing client base across business units.

We expect to grow our revenue about 10% a year. We believe 3%-5% in any given year will come from organic growth, about the same amount from cross-serving, and about the same amount from targeted acquisitions. We have demonstrated that when we can grow the top line at that rate, we can grow the bottom line by a minimum of 20%. In fact, we have grown the bottom line by more than that in each of the last three years, and we’ve recently forecast that we will increase our earnings per share for 2006 by 20% to 25%.

TWST: What are some of the dynamics or trends that you and others are facing in today's competitive landscape? What is it that will distinguish CBIZ?

Mr. Gerard: If you take the accounting and advisory business, which is 44% of our revenue, this is a reasonably good time to be an accountant. The utilization has strengthened and revenue opportunities have increased as a result of the industry consolidation and the impact of Sarbanes-Oxley.

Turning to the insurance and benefit side, where we are a major insurance broker in this country, more and more of our clients are concerned about the rising healthcare costs and are looking for creative solutions. We also see a continued need from our clients for better property and casualty insurance coverage.

Our medical practice business continues to grow. Because it's a very fragmented market, we are able to pick up market share in that business due to our superior service.

The uniqueness of CBIZ is the fact that we are a very strong regional company so that in the major regions where we do business — Kansas City, St. Louis, Phoenix, Tucson, Philadelphia, Chicago, South Florida and Minneapolis — we are well known and well respected as a quality provider. As our branding campaign continues to gain traction, our name continues to be known in more and more locations.

TWST: Introduce us to two or three of the key individuals in your top-level management team.

Mr. Gerard: I'm the Chairman and CEO. Our President and Chief Operating Officer is Jerry Grisko. Our accounting tax and advisory group is run by Len Miller. Our insurance and benefits group is run by Rob O'Byrne. Our Chief Financial Officer is Ware Grove. Each of them has come to the company with either extraordinary experience in their particular industry or with very strong general management experience.

As I've said, this team has been together since 2000, as have the next five senior members. The team has come together very well. There is a very clear direction as to how the business is going to grow and where the growth is going to come from. When you serve the middle market, you really have a very underserved marketplace, and there are thousands upon thousands of companies out there. So we think we have a lot of market opportunity by just staying in our niche.

TWST: Assess the bench strength and skill sets you have onboard currently. Do you see any areas where you may need to add people in the near future? Are certain businesses growing faster?

Mr. Gerard: I think each of our core businesses has about the same opportunity to grow. Our medical practice business, our accounting business, our insurance businesses, and our valuation and payroll all have good growth prospects. We do have some con-

straints. The biggest constraint in the accounting industry — and this goes across all of the accounting firms — is that there's a dearth of available talent. There just aren't enough people in accounting today to handle the workload.

Other than that, I don't see anything that precludes the growth that we have planned because we are growing with three different initiatives. We're growing organically, by cross-serving and by acquisition, none of which will be dominant but combined will drive at least a 10% top-line growth.

I think it's a realistic plan and for the last few years, we have been able to meet or beat our plan.

TWST: In your discussions with the investment community, do you encounter any misperceptions about CBIZ or the businesses the company is in?

Mr. Gerard: On the positive side, our investors recognize that for each of the last three years, we have grown EPS by at least 20%-25%. They see that this is a very strong and consistent cash flow generating company. We have very little cap ex, and every year, our EBITDA goes up dramatically. At the same time, what makes us difficult for the investment community is the diversity of our business. Analysts are unable to compare us because there are no public accounting and consulting providers like CBIZ. You can compare our retail insurance brokerage business with a number of our competitors, but that will only take you so far. You can line up our medical practice management business with at least one competitor, but that, too, will only take you so far. Likewise, the valuation business, which is a growth business for us, has no public comps. So what makes it difficult is not the investors' perception or misperception of the market — it's the analysts' inability to easily compare our company with other public companies.

But on the other hand, that diversity mitigates risk because not only are we geographically dispersed across the country, we are also industry-dispersed and product-dispersed.

TWST: What historically has been the shareholder base with CBIZ? Has it undergone any changes?

Mr. Gerard: With respect to the shareholder base, about 25% of the stock is held by officers, Directors and Mike DeGroot, who is the largest shareholder, although he is no longer active in the business. CBIZ is about 44% institutionally owned, the balance by individuals. Some of those individuals may still be people we bought businesses from between 1997 and 1999; it's hard to tell. The amount of shares owned by officers increases every year through stock purchase plans and the granting of restricted stock.

The other fundamental change in the last three years is that we have been fortunate enough to attract quite a number of large institutional investors to the company.

TWST: What is it that compels investors to include CBIZ in their current portfolios and as part of their longer-term investment strategies?

Mr. Gerard: We believe we have proven that we can grow the top line — and, more important, we have clearly proven we can grow the bottom line by 20% to 25%. We will continue to focus on margin improvement and as appropriate, continue to address the capital structure of the shares outstanding.

I think there are several things for investors to take into account. They should look at our strong and stable management team. They should consider the national platform we have developed for our business. We have already made the investment in the infrastructure and the organization in terms of systems, communication, and locations. We have a long-standing relationship with the vast majority of our clients, and we are, in most cases, truly a trusted advisor to them as a result of our client-service focus. I mentioned before the broad geographic and industry client mix we have mitigates risk. We have an investment grade balance sheet and very strong, consistent

cash flow. If you look at the market that we serve, most people reach the conclusion that it is an underserved market, which should give us the opportunity to grow.

TWST: Thank you.

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