Q1 2018
CONFERENCE CALL

Prepared Remarks From:
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FIRST-QUARTER 2018 FINANCIAL RESULTS
CONFERENCE CALL, APRIL 24, 2018
PREPARED REMARKS

OPERATOR:

Hello, and welcome to the Robert Half first-quarter 2018 conference call. Our hosts for today's call are Mr. Max Messmer, chairman and CEO of Robert Half, and Mr. Keith Waddell, vice chairman, president and chief financial officer. Mr. Messmer, you may begin.

Introduction

HAROLD M. "MAX" MESSMER, JR., CHAIRMAN AND CEO, ROBERT HALF:

Good afternoon, everyone. Thank you for joining us.

I would like to preface today's remarks with a reminder that some of our comments today contain predictions, estimates and other forward-looking statements. These statements represent our current judgment of what the future holds and include words such as "forecast," "estimate," "project," "expect," "believe," "guidance" and similar expressions. We believe these remarks to be reasonable; however, they are subject to risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Some of these risks and uncertainties are described in today's press release and in our SEC filings, including our 10-Ks, 10-Qs and today's 8-K. We assume no obligation to update the statements made on today's call.

For your convenience, our prepared remarks also are available on our website at roberthalf.com. From the home page, click on "Investor Center" at the top of the page. You will find the Quarterly Conference Calls link in the Investor Center.

Now, let's review our results for the first quarter of 2018. Companywide revenues were $1.395 billion, up 8 percent on a reported basis and up 7 percent on a same-day, constant-currency basis from the year-ago period.

Net income per share was 78 cents. You may recall that in December 2017, we recorded provisional amounts and a reasonable estimate for the one-time transition tax on our foreign earnings and profits, as required by the 2017 Tax Cuts and Jobs Act. At that time, we anticipated additional guidance would be released by the IRS throughout 2018 that would require us to adjust our estimate. The result of additional guidance issued during the first quarter led to our recording a $3 million charge to our income tax provision, or 2 cents per share. Excluding this tax charge, net income per share was 80 cents for the quarter.

Cash flow from operations in the first quarter was $116 million and capital expenditures were $8 million. During the quarter, our board of directors authorized a 4-cent increase to our quarterly cash dividend, bringing it to 28 cents. We paid the dividend in March at a total cost of $35 million. The board also authorized the repurchase of up to an additional 10 million shares of the company's common stock. We repurchased 1.1 million Robert Half shares in the first quarter, at a cost of $60 million. We have 11.3 million shares available for repurchase under our board-approved stock repurchase plan.

We were pleased with the company's performance in the first quarter, including across-the-board revenue growth in our U.S. and non-U.S. staffing and Protiviti operations, and particularly strong growth in our permanent placement division. These gains were fueled by continued small business optimism, a growing global economy and low unemployment rates in professional occupations.

We continue to invest in digital innovation initiatives that will seamlessly integrate our customers' digital experience with our industry-leading traditional professional staffing services.

Robert Half's return on invested capital was 35 percent during the first quarter.

I'll turn the call over to Keith now for a closer look at our first-quarter results.

M. KEITH WADDELL, VICE CHAIRMAN, PRESIDENT AND CFO, ROBERT HALF:

Revenues

Thank you, Max. As just noted, global revenues were $1.395 billion in the first quarter. This is up 8 percent from the first quarter of 2017 on a reported basis, and up 7 percent on a same-day, constant-currency basis from the year-ago period.

First-quarter staffing revenues were up 7 percent on a same-day, constant-currency basis. U.S. staffing revenues were $895 million, up 5 percent on a same-day basis, while non-U.S. staffing revenues were $293 million, up 16 percent when adjusted for billing days and currency-exchange rates. We have 326 staffing locations worldwide, including 86 locations in 17 countries outside the United States.

The first quarter had 63.0 billing days, compared to 63.4 days in the first quarter one year ago. The current second quarter has 63.5 billing days, compared to 63.3 days in the second quarter of 2017.

Accompanying our earnings release is a supplemental schedule showing year-over-year revenue growth rates on both a reported and same-day, constant-currency basis. These figures are further broken out by U.S. and non-U.S. operations. This is a non-GAAP financial measure designed to provide insight into certain revenue trends in our operations. Also included in the supplemental schedule is a reconciliation of the non-GAAP net income per share calculation to the most comparable GAAP measure regarding the previously noted tax charge.

Currency exchange rate movements were favorable and had the effect of increasing reported year-over-year staffing revenues by $29 million in the first quarter, which boosted year-over-year reported staffing revenue growth rates by 2.6 percent.

Global revenues for Protiviti were $207 million in the first quarter, with $167 million coming from the United States and $40 million from operations outside the United States. Protiviti revenues were up 5 percent year over year on a same-day, constant-currency basis.

U.S. Protiviti revenues were up 1 percent from the prior year on a same-day basis, while non-U.S. revenues were up 22 percent. Exchange rates had the effect of increasing year-over-year Protiviti revenues by $4 million in the first quarter and increasing the year-over-year reported growth rate by 1.9 percent. Protiviti and its independently owned Member Firms serve clients through a network of 76 locations in 26 countries.

Gross Margin

Now, let's turn to gross margin. Gross margin in our temporary and consulting staffing operations was 37.2 percent of applicable revenues in the first quarter, compared to 37.4 percent of applicable revenues in the same period one year ago. Higher temp-to-hire conversion fees partially offset higher fringe benefit costs.

First-quarter revenues for our permanent placement operations were 10.2 percent of consolidated staffing revenues, compared to 9.5 percent of consolidated staffing revenues in last year's first quarter. When combined with temporary and consulting gross margin, overall staffing gross margin increased 30 basis points versus one year ago, to 43.6 percent.

First-quarter gross margin for Protiviti was $55 million, or 26.4 percent of Protiviti revenues. One year ago, gross margin for Protiviti was $53 million, or 27.0 percent of Protiviti revenues.

Selling, General and Administrative Costs

Staffing SG&A costs were 33.5 percent of staffing revenues in the first quarter versus 33.4 percent in the previous year's first quarter.

SG&A costs for Protiviti were 19.1 percent of Protiviti revenues in the first quarter, compared to 18.4 percent of Protiviti revenues in the year-ago period.

Operating Income

First-quarter operating income from our staffing divisions was $119 million, up 10 percent from the prior year. Operating margin was 10.0 percent. Our temporary and consulting staffing divisions reported $97 million in operating income, an increase of 7 percent from the prior year. This resulted in an operating margin of 9.1 percent. For our permanent placement division, operating income was $22 million in the first quarter. This was up 22 percent from the prior year and produced an operating margin of 18.4 percent.

Operating profit for Protiviti was $15 million in the first quarter, a decrease of 10 percent from the prior year, producing an operating margin of 7.4 percent.

Accounts Receivable

At the end of the first quarter, accounts receivable were $785 million, and implied days sales outstanding (DSO) was 50.5 days.

Guidance

Before we move to second-quarter guidance, let's review the monthly revenue trends we saw in the first quarter of 2018 and so far in April, all adjusted for currency and billing days.

Our temporary and consulting staffing divisions exited the first quarter with March revenues up 6.3 percent versus the prior year, compared to 6.2 percent for the full quarter. Revenues for the first two weeks of April were up 7.6 percent compared to that same period in 2017.

For our permanent placement division, March revenues were up 16.7 percent versus last year, compared to a 15.0 percent increase for the full quarter. For the first three weeks in April, permanent placement revenues were up 24.5 percent compared to the same period last year.

This information is designed to highlight some of the trends we saw during the first quarter and so far in April. But, as you know, they represent brief periods of time, and we caution against reading too much into them.

With that said, we offer the following second-quarter guidance:

- Revenues: $1 billion, 400 million to $1 billion, 460 million
- Income per share: $0.81 to $0.87

The midpoint of our second-quarter guidance implies year-over-year revenue growth of 7 percent on a same-day, constant-currency basis (including Protiviti) and EPS growth of 31 percent.

We limit our guidance to one quarter. All estimates we provide on this call are subject to the risks mentioned in today's press release and in our SEC filings. Now, I'll turn the call back over to Max.

MAX MESSMER, CHAIRMAN AND CEO, ROBERT HALF:

Thank you, Keith. We were pleased to see broad-based, year-over-year revenue growth in all lines of business in the first quarter. International staffing and Protiviti results were solid, and our U.S.-based operations continued to rebound.

Despite fewer-than-expected new jobs being added to the U.S. economy in March, the job market is strong, with unemployment holding steady at 4.1 percent for several months now. The unemployment rate is even lower in the professional occupations in which we specialize. Small and midsize businesses remain optimistic about their growth prospects, according to the latest Vistage CEO Confidence Index and the NFIB's small business optimism index. This favorable business sentiment is fueling job growth in this segment — our key customer base.

At Robert Half, we are also optimistic. Our brands are among the industry's most recognized and respected, our financial position is strong, and our field management teams are experienced and highly capable of growing the business.

Our industry is at an inflection point, and digital transformation is at the heart of it. We are developing proprietary digital solutions that give our customers multiple ways to interact with us online — from submitting job orders to browsing for job candidates. And we continue to test new online services that we believe will appeal to even more customers.

Protiviti is also expanding its offerings by complementing its core internal audit and internal controls solutions with a widening suite of consulting services in risk and compliance, technology, data and analytics, and business performance improvement.

We believe we are just scratching the surface when it comes to the opportunities for us in the space where Protiviti leverages our staffing resources. Blending the capabilities of both businesses enables Protiviti to provide Big Four-quality consulting services at competitive prices. Global and regional consulting firms that compete with Protiviti generally lack the flexible resource capabilities of Robert Half's staffing operations.

Now, Keith and I would be happy to answer your questions. We ask that you please limit yourself to one question and a single follow-up, as needed. If time permits, we'll try to return to you if you have additional questions.

Q&A SESSION

MAX MESSMER, CHAIRMAN AND CEO, ROBERT HALF:

That was our last question. We would like to thank everyone again for joining us on today's call.

OPERATOR:
This concludes today's teleconference. If you missed any part of the call, it will be archived in audio format in the Investor Center of Robert Half's website at www.roberthalf.com. You also can dial the conference call replay. Dial-in details and the conference ID are contained in the company's press release issued earlier today.