Q1 2020 CONFERENCE CALL

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Robert Half®

FIRST-QUARTER 2020 FINANCIAL RESULTS
CONFERENCE CALL, APRIL 23, 2020
PREPARED REMARKS

OPERATOR:

Hello, and welcome to the Robert Half first-quarter 2020 conference call. Our hosts for today's call are Mr. Keith Waddell, president and chief executive officer of Robert Half, and Mr. Michael Buckley, chief financial officer. Mr. Waddell, you may begin.

INTRODUCTION

M. KEITH WADDELL, PRESIDENT AND CEO, ROBERT HALF:

Hello, everyone. We appreciate your time today.

Before we get started, I would like to remind you that the comments made on today's call contain forward-looking statements, including predictions and estimates about our future performance. These statements represent our current judgment of what the future holds. However, they are subject to risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. These risks and uncertainties are described in today's press release and in our most recent 10-K and 10-Q filed with the SEC. We assume no obligation to update the statements made on today's call.

During this presentation, we may mention some non-GAAP financial measures and reference these figures as "as adjusted." Reconciliations and explanations of these measures are included in a supplemental schedule to our earnings press release.

For your convenience, our prepared remarks for today's call are available in the Investor Center of our website at roberthalf.com.

Before we review our first-quarter financial results, I would like to take a moment to talk about Robert Half's response to the COVID-19 pandemic. We have been working for many weeks now to ensure the health and welfare of our employees while also maintaining our service commitments to customers.

The safety of our employees remains our first priority. Early on, we gave all staff the unconditional right to work from home, and this will remain so. We also agreed that time off taken due to illness or the care of loved ones who are sick would not be charged to employees.

As we navigate through this crisis, preserving the long-term intrinsic value of Robert Half is our guiding principle. The key focus is retaining our best people, who have proven time and again their ability to grow and sustain the organization. They are critical to maintaining the culture that has been an essential part of our success. Given the magnitude of the COVID-19 impact on our business, we fully understand that we must also adjust our cost structure in all other areas. To reinforce that we are all in this together, I have cut my base pay by 100 percent until the end of the year, and the other executive officers across the enterprise have also taken substantial pay cuts.

Our previous cloud and other infrastructure investments positioned us extremely well to seamlessly transition our employees to work-from-home status with access to all essential technology tools and communication options. Virtually all employees across the globe are currently working remotely.

We've weathered many downturns over Robert Half's 70+ year history, owing to our strong balance sheet and cash flow, unparalleled brands, professionally focused business model and what we believe is the most driven and tenured workforce in the industry. We are confident we will emerge from this, too, with the ability to compete effectively and win in the post-COVID-19 world, maintaining and enhancing our industry-leading brand.

Now, let's take a look at Robert Half's first-quarter 2020 financial results. Companywide revenues were $1.507 billion, up 3 percent from last year's first quarter on a reported basis, and up 2 percent on an as-adjusted basis.

Net income per share in the first quarter was 79 cents, compared to 93 cents in the first quarter one year ago.

Cash flow from operations during the quarter was $125 million, and capital expenditures were $14 million. In February, we raised our quarterly cash dividend to shareholders from $0.31 to $0.34 per share. We paid the dividend in March, for a total cash outlay of $40 million. We also repurchased approximately 1 million Robert Half shares during the quarter, for $51 million. We have 1.5 million shares available for repurchase under our board-approved stock repurchase plan.

While results through the first half of March were strong and above plan, the second half of March began to reflect the COVID-19 impact on our business, particularly our staffing operations. Our Robert Half Technology and Robert Half Management Resources divisions turned in solid results, notwithstanding this.

Protiviti had another very strong quarter, posting double-digit, year-on-year revenue gains for the eighth consecutive quarter. It saw broad strength across its diversified service offerings, including internal audit, technology consulting and regulatory compliance consulting, as well as services provided jointly with staffing.

Return on invested capital for the company was 32 percent in the first quarter.

Now I'll turn the call over to our CFO, Mike Buckley.

MICHAEL C. BUCKLEY, CFO, ROBERT HALF:

Revenues

Thank you, Keith. Hello, everyone.

Let's start with revenues. As Keith noted, global revenues were $1.507 billion in the first quarter. This is an increase of 3 percent from the first quarter one year ago on a reported basis and an increase of 2 percent on an as-adjusted basis.

On an as-adjusted basis, first-quarter staffing revenues were down 1 percent year over year. U.S. staffing revenues were $944 million, down 0.2 percent from the prior year. Non-U.S. staffing revenues were $269 million, down 4 percent year over year, on an as-adjusted basis. We have 327 staffing locations worldwide, including 88 locations in 17 countries outside the United States.

In the first quarter, there were 63.1 billing days, compared to 62.2 billing days in the same quarter one year ago. The current second quarter has 63.4 billing days, unchanged from the second quarter one year ago.

Currency exchange rate movements during the first quarter had the effect of decreasing reported year-over-year staffing revenues by $9 million. This decreased our year-over-year reported staffing revenue growth rate by 0.7 percentage points.

Now let's take a closer look at results for Protiviti. Global revenues in the first quarter were $294 million: $233 million of that is from business within the United States, and $61 million is from operations outside the United States. On an as-adjusted basis, global first-quarter Protiviti revenues were up 15 percent versus the year-ago period, with U.S. Protiviti revenues up 20 percent. Non-U.S. revenues were up 2 percent on an as-adjusted basis. Exchange rates had the effect of decreasing year-over-year Protiviti revenues by $2 million and decreasing its year-over-year reported growth rate by 0.6 percentage points. Protiviti and its independently owned Member Firms serve clients through a network of 86 locations in 27 countries.

Gross Margin

Turning now to gross margin: In our temporary and consulting staffing operations, first-quarter gross margin was 37.8 percent of applicable revenues, compared to 38.0 percent of applicable revenues in the first quarter one year ago.

Our permanent placement revenues in the first quarter were 9.9 percent of consolidated staffing revenues, versus 10.8 percent of consolidated staffing revenues in the same quarter one year ago. When combined with temporary and consulting gross margin, overall staffing gross margin decreased 70 basis points compared to the year-ago first quarter, to 44.0 percent.

For Protiviti, gross margin was $78 million in the first quarter, or 26.3 percent of Protiviti revenues. One year ago, gross margin for Protiviti was $64 million, or 25.3 percent of Protiviti revenues.

Selling, General and Administrative Costs

Companywide SG&A costs were 31.8 percent of global revenues in the first quarter, compared to 31.4 percent in the same quarter one year ago. Staffing SG&A costs were 35.3 percent of staffing revenues in the first quarter, versus 34.2 percent in Q1 2019. The increase in staffing SG&A as a percentage of revenues was significantly impacted by negative leverage as revenues decreased in response to the pandemic.

First-quarter SG&A costs for Protiviti were 17.3 percent of Protiviti revenues, compared to 17.9 percent of revenues in the year-ago period.

Operating Income

Companywide operating income was $131 million in the first quarter. Operating margin was 8.7 percent. First-quarter operating income from our staffing divisions was $105 million, with an operating margin of 8.6 percent.

Operating income for Protiviti in the first quarter was $26 million, with an operating margin of 9.0 percent.

Tax Rate

Our first-quarter tax rate was very high, at 32 percent, compared to 26 percent a year ago. The primary driver was the lower-than-expected tax deduction for the annual vesting of stock compensation, which was valued after recent stock price declines.

Accounts Receivable

At the end of the first quarter, accounts receivable was $854 million, and implied days sales outstanding (DSO) was 51.0 days.

Guidance Suspended

Given the uncertainty caused by the COVID-19 pandemic and its impact on global economies, we are not offering overall guidance this quarter.

We will, however, review with you some of the monthly revenue trends we saw in the first quarter 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 down 6.0 percent versus the prior year, compared to being flat for the full quarter. Revenues for the first three weeks of April were down 25 percent compared to the same period one year ago.

Permanent placement revenues in March were down 33.3 percent versus March of 2019. This compares to a 9.0 percent decrease for the full quarter. For the first three weeks in April, permanent placement revenues were down 63 percent compared to the same period in 2019.

Protiviti's pipeline remains strong, particularly for technology and regulatory compliance engagements. Protiviti expects second-quarter revenues to be in the range of flat to down 10 percent versus the prior year.

As a result of these staffing trends and the continuing social distancing lockdowns across the globe, we took actions in March and early April to reduce our operating costs by approximately 20 percent compared to the first quarter of 2020. Also, we are currently taking further action to reduce SG&A costs by an additional 10 percent. These actions have been focused on eliminating all non-essential costs such as travel and events, as well as laying off our less experienced and lower performing staff. Impacted corporate staff were furloughed with paid benefits, awaiting a return to higher activity levels. Given the timing of these reductions and certain severance costs, reported results for the second quarter will only reflect savings of approximately 25 percent versus the first quarter of 2020.

We enter this period with a very strong balance sheet. At the end of the quarter, we had $250 million in cash and $854 million in receivables, both of which will be a significant source of ongoing liquidity and financial resilience.

Now I'll turn the call back over to Keith.

M. KEITH WADDELL, PRESIDENT AND CEO, ROBERT HALF:

Thank you, Mike. As noted earlier, the COVID-19 pandemic is having a significant impact on global economies as a result of stay-at-home orders and business closures to stop the spread of the virus.

Our staffing clients, most of which are small and midsize businesses, are feeling the crisis most acutely, and the downstream effect is a much tougher business climate for Robert Half. I am extremely proud of how our teams have been responding to this pandemic.

Even in the current environment, we see opportunity. We are aggressively pursuing significant opportunities in financial services, government and public education, and outsourced re-shoring, many times jointly with Protiviti. We're already seeing many successes in these areas.

Protiviti has also successfully transitioned its existing and new client work to a remote delivery model, which makes it even more possible to bring the most relevant deep-subject-matter experts to the table for its clients.

Well-Positioned for the Recovery

We believe the factors that drive typical recovery patterns are very much still in place:

1. **Companies get lean and defer projects during downturns, particularly nimble small and midsize businesses.** Because they start lean, employers need help as business picks up and they resume projects that were put on hold. Variable cost labor models are ideal in the early stages of a recovery until the business stabilizes. As the recovery accelerates, there is typically pent-up demand, especially for specialized skill sets.

2. **The quality of the available labor pool is never better than in the early part of a recovery.** Many people who lost their jobs during the downturn did so because of business conditions, not performance. Some companies will tap into this talent pool by hiring full-time as their business picks up. Others will upgrade existing staff, and some will tap into the high-quality temporary and contractor pool because they are reluctant to hire full-time. Either way, Robert Half gets a lift in permanent placement and temporary and contract revenues.

What is particularly good news this time is that employers have seen that remote work can be effective. With fewer geographic constraints, we can find an even better fit on the candidate side, which effectively raises the quality of the candidate pool that much further. We are already seeing examples of this.

In short, as business picks up, demand for our services also picks up because clients start with lean staffs. Likewise, the quality of the candidate supply benefits from high unemployment and fewer geographic limitations, which provides further incentive for our clients.

During early periods of recovery, clients particularly need our help to avoid becoming overwhelmed with the massive volume of candidate responses to their open positions. They are ill-equipped to handle the interviewing, vetting, follow-up and consummation of their employment requirements. They will also need our help persuading fully employed candidates to make a job change at a time when they value the security of their existing jobs, and to get access to candidates who are only known to us confidentially.

In the past two downturns, once the trough was reached, our revenue growth was very robust for the next three to five years, with permanent placement outpacing temporary and consulting.

Much of the current unprecedented monetary and fiscal policy response to this crisis, including this week's $484 billion extension, is targeted at our client base. This gives us cause for optimism. We are confident that Robert Half will participate fully in any recovery as business conditions improve.

Now, Mike and I would be happy to answer your questions. Please ask just one question and a single follow-up, as needed. If there's time, we'll come back to you for additional questions.

Q&A SESSION

M. KEITH WADDELL, PRESIDENT AND CEO, ROBERT HALF:

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

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.