# Q1 2023 CONFERENCE CALL

Prepared Remarks From:
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Robert Half®

**FIRST-QUARTER 2023 FINANCIAL RESULTS**
**CONFERENCE CALL, PREPARED REMARKS**
**APRIL 26, 2023**



**OPERATOR:**

Hello, and welcome to the Robert Half first-quarter 2023 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 further explanations of these measures are included in a supplemental schedule to our earnings press release.

Our presentation of revenues and the related growth rates for each of our contract functional specializations includes intersegment revenues from services provided to Protiviti in connection with the Company's blended talent solutions and consulting operations. This is how we measure and manage these businesses internally. The combined amount of intersegment revenues with Protiviti is also separately disclosed.

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

First-quarter results were largely in line with expectations. Protiviti led the way with its 22nd consecutive quarter of year-over-year revenue growth. Talent solutions performed well against a backdrop of client hiring caution and tight labor markets. We remain very optimistic about our ability to navigate the uncertain global macroeconomic environment and are well positioned to benefit as the macro landscape improves.

For the first quarter of 2023, companywide revenues were $1.716 billion, down 5 percent from last year's first quarter on a reported basis, and down 6 percent on an as adjusted basis.

Net income per share in the first quarter was $1.14, compared to $1.52 in the first quarter one year ago.

Cash flow from operations during the quarter was $66 million. In March, we distributed a 48 cent per-share cash dividend to our shareholders of record, for a total cash outlay of $54 million. Our per-share dividend has grown 11.7 percent annually since its inception in 2004. The March 2023 dividend was 11.6 percent higher than in 2022. We also acquired approximately 500 thousand Robert Half shares during the quarter for $38 million. We have 13.3 million shares available for repurchase under our board-approved stock repurchase plan.

Return on invested capital for the Company was 31 percent in the first quarter.

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

**MICHAEL C. BUCKLEY, CFO, ROBERT HALF:**

Thank you, Keith. Hello, everyone.

As Keith noted, global revenues were $1.716 billion in the first quarter.

On an as adjusted basis, first-quarter talent solutions revenues were down 9 percent year over year. U.S. talent solutions revenues were $944 million, down 11 percent from the prior year. Non-U.S. talent solutions revenues were $278 million, down 3 percent year over year on an as adjusted basis. We have 317 talent solutions locations worldwide, including 86 locations in 18 countries outside the United States.

In the first quarter, there were 63.3 billing days, compared to 62.4 billing days in the same quarter one year ago. The second quarter of 2023 has 63.3 billing days, compared to 63.4 billing days during the second quarter of 2022.

Currency exchange rate movements during the first quarter had the effect of decreasing reported year-over-year total revenues by $21 million — $15 million for talent solutions and $6 million for Protiviti. This negatively impacted our year-over-year overall revenue growth rate by 1.2 percentage points — 1.1 percentage points for talent solutions and 1.3 percentage points for Protiviti.

Contract talent solutions bill rates for the quarter increased 6.9 percent compared to one year ago, adjusted for changes in the mix of revenues by functional specialization, currency and country. This rate for the fourth quarter was 7.8 percent.

Now let's take a closer look at results for Protiviti. Global revenues in the first quarter were $494 million: $397 million of that is from business within the United States, and $97 million is from operations outside the United States. On an as adjusted basis, global first-quarter Protiviti revenues were up 4 percent versus the year-ago period, with U.S. Protiviti revenues up 6 percent, while non-U.S. Protiviti revenues were down 1 percent. Protiviti and its independently owned Member Firms serve clients through a network of 89 locations in 29 countries.

**Gross Margin**

Turning now to gross margin: In contract talent solutions, first-quarter gross margin was 39.8 percent of applicable revenues, compared to 40.0 percent of applicable revenues in the first quarter one year ago. Conversion revenues (or contract-to-hire) were 3.7 percent of revenues in the quarter compared to 4.0 percent of revenues in the quarter one year ago.

Our permanent placement revenues in the first quarter were 12.8 percent of consolidated talent solutions revenues, versus 13.9 percent in the same quarter one year ago. When combined with contract talent solutions gross margin, overall gross margin for talent solutions was 47.5 percent, compared to 48.3 percent of applicable revenues in the first quarter one year ago.

For Protiviti, gross margin was 22.2 percent of Protiviti revenues, compared to 26.2 percent of Protiviti revenues one year ago. Adjusted for deferred-compensation-related classification impacts, gross margin for Protiviti was 23.2 percent for the quarter just ended, compared to 25.3 percent one year ago.

**Selling, General and Administrative Costs**

Enterprise SG&A costs were 32.2 percent of global revenues in the first quarter, compared to 28.3 percent in the same quarter one year ago. Adjusted for deferred-compensation-related classification impacts, enterprise SG&A costs were 30.9 percent for the quarter just ended, compared to 29.8 percent one year ago.

Talent solutions SG&A costs were 39.0 percent of talent solutions revenues in the first quarter, versus 33.6 percent in the first quarter of 2022. Adjusted for deferred-compensation-related classification impacts, talent solutions SG&A costs were 37.1 percent for the quarter just ended, compared to 35.6 percent one year ago.

The lower mix of permanent placement revenues this quarter versus one year ago had the effect of decreasing the quarter's adjusted SG&A ratio by 0.6 percentage points. The increase in talent solutions SG&A as a percent of revenues in the current period was driven primarily by internal staff compensation costs.

First-quarter SG&A costs for Protiviti were 15.3 percent of Protiviti revenues, compared to 13.3 percent of revenues in the year-ago period as operating expenditures returned to more normal pre-pandemic levels.

**Segment Income**

Operating income for the quarter was $138 million. Adjusted for deferred-compensation-related classification impacts, combined segment income was $165 million in the first quarter. Combined segment margin was 9.6 percent. First-quarter segment income from our talent solutions divisions was $126 million, with a segment margin of 10.3 percent. Segment income for Protiviti in the first quarter was $39 million, with a segment margin of 7.9 percent.

**Tax Rate**

Our first-quarter tax rate was 28 percent, up from 26 percent for the same quarter one year ago. The higher tax rate for 2023 can be primarily attributed to lower tax credits as well as lower stock compensation deductions due to the Company's stock price.

**Accounts Receivable**

At the end of the first quarter, accounts receivable were $1.009 billion, and implied days sales outstanding (DSO) was 52.9 days.

**Guidance**

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

Contract talent solutions exited the first quarter with March revenues down 9 percent versus the prior year, compared to an 8 percent decrease for the full quarter. Revenues for the first two weeks of April were down 11 percent compared to the same period one year ago.

Permanent placement revenues in March were down 17 percent versus March 2022. This compares to a 16 percent decrease for the full quarter. For the first three weeks in April, permanent placement revenues were down 13 percent compared to the same period in 2022.

We provide this information so you have insight into some of the trends we saw during the first quarter and into April. But as you know, these are very brief time periods. We caution against reading too much into them.

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

- Revenues: $1.655 billion to $1.735 billion
- Income per share: $1.09 to $1.19

**Guidance Assumptions**

Midpoint revenues of $1.695 billion are 9 percent lower than the same period in 2022 on an as adjusted basis.

The major financial assumptions underlying the midpoint of these estimates are as follows:

**Revenue growth, year-over-year, as adjusted:**

| | | | | |
|---|---|---|---|---|
| Talent solutions: | Down | 11% | to Down | 16% |
| Protiviti: | Up | 2% | to | 5% |
| Overall: | Down | 7% | to Down | 11% |

**Gross margin percentage:**

| | | | |
|---|---|---|---|
| Contract talent: | 39% | to | 41% |
| Protiviti: | 24% | to | 26% |
| Overall: | 40% | to | 42% |

**SG&A as percent of revenues, excluding deferred-compensation classification impacts:**

| | | | |
|---|---|---|---|
| Talent solutions: | 37% | to | 39% |
| Protiviti: | 14% | to | 16% |
| Overall: | 30% | to | 32% |

**Segment income:**

| | | | |
|---|---|---|---|
| Talent solutions: | 8% | to | 11% |
| Protiviti: | 9% | to | 12% |
| Overall: | 8% | to | 11% |

| | | | |
|---|---|---|---|
| Tax Rate: | 28% | to | 29% |
| Shares: | 106 to 107 million | | |

2023 capital expenditures and capitalized cloud computing costs: $90 million to $110 million, with $20 to $25 million in the second quarter.

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 Keith.

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

Thank you, Mike.

Global labor markets remain tight and clients continue to hire, albeit at a more measured pace. Many are more selective and have added steps to their hiring processes, which impacts their decision time frames and lengthens our sales cycle.

Talent shortages continue. While modestly off their peaks, job openings and quit rates in the United States remain well above historical levels, and the unemployment rate stands at 3.5 percent, a 50-year low. The National Federation of Independent Business, NFIB, recently reported that 90 percent of small business owners hiring or trying to hire had few or no qualified applicants, and 43 percent of all small business owners had job openings that could not be filled.

Protiviti achieved another solid quarter of revenue growth led by the regulatory risk and compliance practice as well as technology consulting. Protiviti continues to have a very strong pipeline across an increasingly diverse offering of solutions.

We continue to invest in the tools we need to secure top talent for our clients by combining the power of our proven, artificial intelligence-based technologies with the skills, judgment and expertise of our specialized recruiting professionals. It is our unique and powerful combination of both that sets us apart in the marketplace.

We have weathered many economic cycles in the past, each time emerging to achieve higher peaks. This most recently includes the fastest recovery in our Company's history following the COVID-19 downturn. We also benefit from Protiviti's greater resiliency stemming from its diversified solutions offerings.

We remain committed to our time-tested corporate purpose — to connect people to meaningful and exciting work and provide clients with the talent and consulting expertise they need to confidently compete and grow.

Our employees across the globe made possible a number of company accolades in the first quarter. We are proud to have earned three prestigious awards from Fortune — the inaugural America's Most Innovative Companies, the 100 Best Companies to Work For and, for the 26th consecutive year, the Most Admired Companies. We were also recognized by Forbes as a Best Employer for Diversity just yesterday.

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. Thank you 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 roberthalf.com. You also can dial the conference call replay. Dial-in details and the confirmation code are contained in the Company's press release issued earlier today.

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