Robert Half

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Financial Results Conference Call

Prepared Remarks From:

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OPERATOR:

Introduction

M. Keith Waddell, President and Chief Executive Officer, 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.

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

Client and candidate caution continues to impact hiring activity and new project starts on a global basis. However, the trend toward stabilization that began in the second half of last year continued into the first quarter of this year. First-quarter results were largely in line with expectations, and we are encouraged that second-quarter earnings guidance, led by Protiviti, anticipates higher sequential earnings for the first time in seven quarters.

We remain confident in our ability to navigate the current climate and optimistic about our growth prospects, built on our industry-leading brand, people, technology and unique business model that includes both professional staffing and business consulting services.

For the first quarter of 2024, companywide revenues were $1.476 billion, down 14 percent from last year's first quarter on an as reported basis, and down 13 percent on an as adjusted basis.

Net income per share in the first quarter was $0.61, compared to $1.14 in the first quarter one year ago.

In March, we distributed a 53 cent per-share cash dividend to our shareholders of record, for a total cash outlay of $58 million. Our per-share dividend has grown 11.6 percent annually since its inception in 2004. The March 2024 dividend was 10.4 percent higher than the prior year. We also acquired approximately 750 thousand Robert Half shares during the quarter for $60 million. We have 10.0 million shares available for repurchase under our board-approved stock repurchase plan.

Return on invested capital for the Company was 16 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 $1.476 billion in the first quarter.

On an as adjusted basis, first-quarter talent solutions revenues were down 17 percent year over year. U.S. talent solutions revenues were $764 million, down 19 percent from the prior year's first quarter. Non-U.S. talent solutions revenues were $248 million, down 10 percent year over year. We have 315 talent solutions locations worldwide, including 91 locations in 17 countries outside the United States.

In the first quarter, there were 62.8 billing days, compared to 63.3 billing days in the same quarter one year ago. The second quarter of 2024 has 63.5 billing days, compared to 63.3 billing days during the second quarter of 2023.

Currency exchange rate fluctuations during the first quarter had the effect of increasing reported year-over-year total revenues by $2 million — $2 million for talent solutions and a negligible amount for Protiviti.

Contract talent solutions bill rates for the first quarter increased 3.1 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 3.7 percent.

Now let's take a closer look at results for Protiviti. Global revenues in the first quarter were $464 million: $378 million of that is from the United States, and $86 million is from outside the United States. On an as adjusted basis, global first-quarter Protiviti revenues were down 5 percent versus the year-ago period. U.S. Protiviti revenues were down 4 percent, while non-U.S. Protiviti revenues were down 10 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 39.5 percent of applicable revenues, versus 39.8 percent in the first quarter one year ago. Conversion revenues (or contract-to-hire) were 3.2 percent of revenues in the quarter, compared to 3.7 percent of revenues in the quarter one year ago.

Our permanent placement revenues in the first quarter were 12.3 percent of consolidated talent solutions revenues, versus 12.8 percent in the same quarter one year ago. When combined with contract talent solutions gross margin, overall gross margin for talent solutions was 47.0 percent, compared to 47.5 percent of applicable revenues in the first quarter last year.

For Protiviti, gross margin was 18.9 percent of Protiviti revenues, compared to 22.2 percent of Protiviti revenues one year ago. Adjusted for the amount of deferred compensation that is completely offset by investment income related to employee deferred compensation trusts (the "Deferred Compensation Investment Income Offset"), gross margin for Protiviti was 20.7 percent for the quarter just ended, compared to 23.2 percent last year.

Selling, General and Administrative Costs

Enterprise SG&A costs were 35.3 percent of global revenues in the first quarter, compared to 32.2 percent in the same quarter one year ago. Adjusted for the Deferred Compensation Investment Income Offset, enterprise SG&A costs were 33.0 percent for the quarter just ended, compared to 30.9 percent last year.

Talent solutions SG&A costs were 44.3 percent of talent solutions revenues in the first quarter, versus 39.0 percent in the first quarter of 2023. Adjusted for the Deferred Compensation Investment Income Offset, talent solutions SG&A costs were 40.8 percent for the quarter just ended, compared to 37.1 percent last year.

First-quarter SG&A costs for Protiviti were 15.8 percent of Protiviti revenues, compared to 15.3 percent of revenues for the same quarter last year.

Segment Income

Operating income for the quarter was $41 million. Adjusted for the Deferred Compensation Investment Income Offset, combined segment income was $85 million in the first quarter. Combined segment margin was 5.7 percent. First-quarter segment income from our talent solutions divisions was $62 million, with a segment margin of 6.1 percent. Segment income for Protiviti in the first quarter was $23 million, with a segment margin of 4.9 percent.

Income from investments held in employee deferred compensation trusts

Our first quarter 2024 income statement includes $43 million as income from investments held in employee deferred compensation trusts. This is completely offset by an equal amount of additional employee compensation which is reflected in SG&A expenses and direct costs. As such, it has no effect on our reported net income.

Tax Rate

Our first-quarter tax rate was 30 percent, compared to 28 percent one year ago.

Accounts Receivable

At the end of the first quarter, accounts receivable were $861 million, and implied days sales outstanding (DSO) was 52.5 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 16 percent versus the prior year, compared to a 16 percent decrease for the full quarter. Revenues for the first two weeks of April were down 16 percent compared to the same period last year.

Permanent placement revenues in March were down 17 percent versus March 2023. This compares to a 20 percent decrease for the full quarter. For the first three weeks in April, permanent placement revenues were down 18 percent compared to the same period in 2023.

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: $1.45 billion to $1.55 billion
- Income per share: $0.63 to $0.77

Guidance Assumptions

Midpoint revenues of $1.50 billion are 9 percent lower than the same period in 2023 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	10%	to	14%
Protiviti:	Down	3%	to	0%
Overall:	Down	7%	to	11%
Gross margin percentage:				
Contract talent:		38%	to	41%
Protiviti (as adjusted for the deferred compensation investment income offset):		22%	to	24%
Overall:		38%	to	40%
SG&A as percent of revenues, adjusted for the deferred compensation investment income offset:				
Talent solutions:		40%	to	42%
Protiviti:		15%	to	17%
Overall:		32%	to	34%
Segment income:				
Talent solutions:		5%	to	7%
Protiviti:		6%	to	8%
Overall:		5%	to	8%
Tax Rate:		29%	to	30%
Shares:			103 to 104 million	

2024 capital expenditures and capitalized cloud computing costs: $90 million to $110 million, with $20 to $25 million in the second quarter.

As always, we limit our formal guidance to one quarter forward. Just for informational purposes, we would note that the ten year average performance for the third quarter (excluding 2020's COVID impact) is for sequential revenue gains of 1.1 percent and sequential EPS gains of 4.3 percent.

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 Chief Executive Officer, Robert Half:

Thank you, Mike.

Consistent with prior quarters, clients are budget-sensitive and very selective in their hiring activities, including the approval of new projects. Also, many are maintaining their internal headcounts based on the anticipated difficulty in finding suitable replacements. Candidates are also more reluctant to change jobs, reflecting diminished confidence in the market. The net impact is less churn in the labor force, and employee attrition is down significantly across the globe.

On a weekly basis, we exited the quarter with revenues very similar to those at the end of the prior quarter — another sign of the stabilization we have seen since the middle of last year.

We have many reasons to be optimistic about the future. We have significant opportunities as macroeconomic conditions improve, starting with the re-acceleration in the velocity of hiring and the more normalized labor churn that typically follows when client and candidate confidence improve. Job openings data, significantly higher than in prior industry downturns, indicate substantial amounts of pent-up demand for future hiring. We are also encouraged by the growth and margin prospects from our continued focus on services related to higher-skilled talent, both in talent solutions and Protiviti. Our investments in higher-skilled services carry many advantages — higher bill rates and gross margins, longer assignment lengths, increased client openness to remote talent, more full-time engagement professionals, and less economic sensitivity. Our mix of revenues from higher-skilled positions has been steadily rising over the past several years and currently exceeds 50%. We expect this positive trend to continue.

We continue to invest in technology and innovation to fuel our core business strategy, which places our specialized talent solutions professionals at the center of clients' hiring experience, along with digital tools that provide greater client convenience, flexibility and transparency throughout the hiring process. We also continue to leverage our proprietary data assets to enhance the AI tools our recruiters use to discover, assess and select talent for our clients, and the AI tools our recruiters use to effectively target leads for additional revenue.

Protiviti continues to have a strong pipeline and a diverse offering of solutions which compete very effectively in the marketplace. Protiviti's first quarter results were also impacted by client budget measures and seasonally higher costs. We are encouraged that for the second quarter, Protiviti expects to report sequential segment income growth for the first time in 6 quarters — based on broad-based strength in each of its solutions areas, all of which are expected to grow sequentially. Coupled with close control over its resources costs and staff utilization rates, this anticipated growth drives approximately 200 basis points in sequential improvements in Protiviti projected gross margin and segment margin.

We have weathered many economic cycles in the past, each time emerging to achieve higher peaks. While macroeconomic conditions have constrained client resource levels in the short term, this also results in pent-up demand for talent and projects as business conditions improve. Also, aging workforce demographics and clients' desire for flexible resources and variable costs are structural tailwinds that are expected to benefit us for many years to come. With our current portfolio of talent and Protiviti solutions, we are even more confident about our future.

We are held steadfast by 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.

Finally, we'd like to extend our gratitude to our employees across the globe, whose efforts made possible a number of recent prestigious accolades. Robert Half was among an elite few companies — and the only in our industry — to be honored as a *Fortune*® Most Admired Company™ for 27 consecutive years. We were also recognized as one of Fortune's 100 Best Companies to Work For®, Forbes' America's Best Large Employers and, just this week, one of Forbes' Best Employers for Diversity. All are a testament to our people-first culture, which is a cornerstone to our success.

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 Chief Executive Officer, 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.