Q2 2020 CONFERENCE CALL

Prepared Remarks From:
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Robert Half®

SECOND-QUARTER 2020 FINANCIAL RESULTS
CONFERENCE CALL, PREPARED REMARKS
JULY 23, 2020

OPERATOR:

Hello, and welcome to the Robert Half second-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 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 at www.roberthalf.com.

I'd like to begin by acknowledging that these past few months have been unlike anything most of us have experienced in our lifetimes, with both the global economic disruption caused by the COVID-19 pandemic and the social unrest over racial injustice. I am so proud of how Robert Half has responded to these circumstances. Our employees and tenured management teams have worked together to effectively manage our costs and aggressively pursue revenue-generation opportunities.

We remain committed to serving our clients, candidates and partners. Since the start of the pandemic, we have prioritized the health and safety of our employees, and virtually all our global staffing and Protiviti employees have been working remotely. We have successfully maintained full operations even where our physical locations have remained closed.

Robert Half's second-quarter results were clearly affected by the economic crisis resulting from the COVID-19 pandemic, most acutely in our staffing business. Protiviti had an outstanding quarter and continues to benefit from strong solutions offerings and pipeline. We are encouraged by recent signs of week-on-week sequential growth in our staffing operations, and, although significant uncertainty continues, we approach the third quarter with optimism.

Now, let's take a look at Robert Half's second-quarter 2020 financial results. Companywide revenues were $1.108 billion, down 27 percent from last year's second quarter on a reported basis, and down 26 percent on an as-adjusted basis.

Net income per share in the second quarter was 41 cents, compared to 98 cents in the second quarter one year ago.

As announced in our last earnings call, we have implemented actions to reduce our overall cost structure by approximately 30 percent as compared to Q1 2020. The timing of those actions, which occurred over the course of the quarter, as well as certain employee compensation-related items, such as severance and salary continuation, reduced the savings actually reported in the second quarter to 24 percent.

Cash flow from operations during the quarter was $301 million, and capital expenditures were $8 million. In June, we distributed a $.34 per share cash dividend to our shareholders of record, for a total cash outlay of $38 million. There were no repurchases during the second quarter. We anticipate repurchase activity to commence again in Q3, at a reduced rate.

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

MICHAEL C. BUCKLEY, CFO, ROBERT HALF:

Thank you, Keith. Hello, everyone.

Revenues

Let's start with revenues. As Keith noted, global revenues were $1.108 billion in the second quarter. This is a decrease of 27 percent from the second quarter one year ago on a reported basis and a decrease of 26 percent on an as-adjusted basis.

On an as-adjusted basis, second-quarter staffing revenues were down 33 percent year over year. U.S. staffing revenues were $640 million, down 34 percent from the prior year. Non-U.S. staffing revenues were $184 million, down 31 percent year over year on an as-adjusted basis. We have 326 staffing locations worldwide, including 88 locations in 17 countries outside the United States.

In the second quarter, there were 63.4 billing days, unchanged from the same quarter one year ago. The current third quarter has 64.3 billing days, compared to 64.1 billing days in the third quarter one year ago.

Currency exchange rate movements during the second quarter had the effect of decreasing reported year-over-year staffing revenues by $8 million. This decreased our year-over-year reported staffing revenue growth rate by 0.6 percentage points.

Now, let's take a closer look at results for Protiviti. Global revenues in the second quarter were $284 million: $225 million of that is from business within the United States, and $59 million is from operations outside the United States. On an as-adjusted basis, global second-quarter Protiviti revenues were up 4 percent versus the year-ago period, with U.S. Protiviti revenues up 6 percent. Non-U.S. revenues were down 2 percent on an as-adjusted basis. Exchange rates had the effect of decreasing year-over-year Protiviti revenues by $1 million and decreasing its year-over-year reported growth rate by 0.5 percentage points. Protiviti and its independently owned Member Firms serve clients through a network of 86 locations in 28 countries.

Gross Margin

Turning now to gross margin: In our temporary and consultant staffing operations, second-quarter gross margin was 37.1 percent of applicable revenues, compared to 38.2 percent of applicable revenues in the second quarter one year ago. The year-over-year decline in gross margin percentage is primarily due to lower conversion revenues.

Our permanent placement revenues in the second quarter were 8.6 percent of consolidated staffing revenues, versus 11.3 percent of consolidated staffing revenues in the same quarter one year ago. When combined with temporary and consultant gross margin, overall staffing gross margin decreased 260 basis points compared to the year-ago second quarter, to 42.5 percent.

For Protiviti, gross margin was $73 million in the second quarter, or 25.7 percent of Protiviti revenues. One year ago, gross margin for Protiviti was $76 million, or 27.9 percent of Protiviti revenues.

Selling, General and Administrative Costs

Companywide SG&A costs were 32.9 percent of global revenues in the second quarter, compared to 31.5 percent in the same quarter one year ago. Staffing SG&A costs were 39.1 percent of staffing revenues in the second quarter, versus 34.6 percent in Q2 2019. The increase in staffing SG&A as a percentage of revenues was significantly impacted by negative leverage as revenues decreased. In addition, as Keith noted, the timing of our cost-reduction actions, including compensation-related costs associated with employee terminations, impacted total SG&A expense for the quarter.

Second-quarter SG&A costs for Protiviti were 15.1 percent of Protiviti revenues, compared to 17.3 percent of revenues in the year-ago period.

Operating Income

Companywide operating income was $58 million in the second quarter. Operating margin was 5.3 percent. Second-quarter operating income from our staffing divisions was $28 million, with an operating margin of 3.4 percent.

Operating income for Protiviti in the second quarter was $30 million, with an operating margin of 10.6 percent.

Tax Rate

Our second-quarter tax rate was 20 percent, compared to 28 percent a year ago. The relatively low second-quarter tax rate is a consequence of a lower anticipated full-year tax rate compared to our full-year estimate in the first quarter. Our six-month, year-to-date rate of 28 percent is in line with what we expect for the full year.

Accounts Receivable

At the end of the second quarter, accounts receivable was $665 million, and implied days sales outstanding (DSO) was 54.0 days.

Guidance

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

Our temporary and consultant staffing divisions exited the second quarter with June revenues down 33.7 percent versus the prior year, compared to a 31.2 percent decrease for the full quarter. Revenues for the first two weeks of July were down 33 percent compared to the same period one year ago. On a sequential week-over-week basis, we saw revenue growth for the last three weeks of June, and this has continued into July.

Permanent placement revenues in June were down 46.1 percent versus June of 2019. This compares to a 49.1 percent decrease for the full quarter. For the first three weeks in July, permanent placement revenues were down 35 percent compared to the same period in 2019.

We provide this information so that you have insight into some of the trends we saw during the second quarter and into July. 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 third-quarter guidance:

- Revenues: $1.09 billion to $1.20 billion
- Income per share: $0.49 to $0.68

The midpoint of our guidance implies a year-over-year revenue decline of 26 percent on an as-adjusted basis (including Protiviti).

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.

Only a few short months ago, we discussed our operations in an unprecedented, candidate-constrained labor market. In one quarter’s time, we are now operating in a labor market with unprecedented unemployment levels. The experience of our tenured management team has driven a swift shift in strategic focus to embrace this new operating environment. Our employees have found innovative ways to maintain connections with candidates, clients and each other in a remote environment. We’ve seen opportunities for new success with virtual client visits and by connecting clients to deep expertise from Protiviti on a virtual basis.

We have seen new opportunities arise across all our lines of business in supporting a wide range of companies and entities: financial institutions, state and local governments, and large school districts, just to name a few.

The widespread global stay-at-home orders have accelerated trends in remote work, with many companies indicating a permanent shift in their staffing strategies. We see increased demand as companies upgrade their talent pools, without regard to the physical location of the candidate. Likewise, as remote work takes a more prominent position, we see new demand for changing skill sets. Larger companies that have temporarily furloughed employees are also seeking opportunities to upgrade or find remote talent, from lower-cost areas. And we see demand when furloughed employees are not able or ready to return to work.

Thriving in the New Normal

We have managed through this crisis and have a solid foundation for thriving in the new normal. I'm proud of the resilience our employees demonstrated in arguably the most unique period in the company's history. We aggressively cut costs in the quarter, achieving our targeted reductions. These reductions, coupled with a talented and driven team that is backed by our industry-leading technology, position us to fully participate in any economic recovery.

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 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.

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