Q2 2023
CONFERENCE CALL

Prepared Remarks From:
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Michael C. Buckley, Chief Financial Officer, Robert Half Inc.

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Robert Half®

SECOND-QUARTER 2023 FINANCIAL RESULTS
CONFERENCE CALL, PREPARED REMARKS
JULY 25, 2023

OPERATOR:

Hello, and welcome to the Robert Half second-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.

Second quarter results for talent solutions were impacted by elongated client hiring cycles resulting from ongoing global macro uncertainty. Protiviti was much less impacted with its diversified suite of solutions offerings. Pricing and gross margins remain strong, demonstrating the value-added benefit we continue to deliver for our clients. We remain confident that we are well positioned to benefit significantly as the macro landscape improves.

For the second quarter of 2023, companywide revenues were $1.639 billion, down 12 percent from last year's second quarter on both a reported and as adjusted basis.

Net income per share in the second quarter was $1.00, compared to $1.60 in the second quarter one year ago.

Cash flow from operations during the quarter was $281 million. In June, we distributed a 48 cent per-share cash dividend to our shareholders of record, for a total cash outlay of $51 million. Our per-share dividend has grown 11.5 percent annually since its inception in 2004. The June 2023 dividend was 11.6 percent higher than in 2022. We also acquired approximately 650 thousand Robert Half shares during the quarter for $45 million. We have 12.7 million shares available for repurchase under our board-approved stock repurchase plan.

Return on invested capital for the Company was 26 percent in the second 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.

As Keith noted, global revenues were $1.639 billion in the second quarter.

On an as adjusted basis, second-quarter talent solutions revenues were down 16 percent year over year. U.S. talent solutions revenues were $885 million, down 17 percent from the prior year's second quarter. Non-U.S. talent solutions revenues were $263 million, down 9 percent year over year on an as adjusted basis. We have 318 talent solutions locations worldwide, including 87 locations in 18 countries outside the United States.

In the second quarter, there were 63.3 billing days, compared to 63.4 billing days in the same quarter one year ago. The third quarter of 2023 has 63.1 billing days, compared to 64.3 billing days during the third quarter of 2022.

Currency exchange rate movements during the second quarter had the effect of decreasing reported year-over-year total revenues by $3 million — $3 million for talent solutions and a negligible impact to Protiviti.

Contract talent solutions bill rates for the quarter increased 6.0 percent compared to one year ago, adjusted for changes in the mix of revenues by functional specialization, currency and country. This rate for the first quarter was 6.9 percent.

Now let's take a closer look at results for Protiviti. Global revenues in the second quarter were $491 million: $386 million of that is from business within the United States, and $105 million is from operations outside the United States. On an as adjusted basis, global second-quarter Protiviti revenues were down 1 percent versus the year-ago period. U.S. Protiviti revenues were down 2 percent, while non-U.S. Protiviti revenues were up 4 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, second-quarter gross margin was 39.9 percent of applicable revenues, the same as the second quarter one year ago. Conversion revenues (or contract-to-hire) were 3.7 percent of revenues in the quarter, compared to 4.1 percent of revenues in the quarter one year ago.

Our permanent placement revenues in the second quarter were 13.0 percent of consolidated talent solutions revenues, versus 14.7 percent in the same quarter one year ago. When combined with contract talent solutions gross margin, overall gross margin for talent solutions was 47.7 percent, compared to 48.7 percent of applicable revenues in the second quarter one year ago.

For Protiviti, gross margin was 22.9 percent of Protiviti revenues, compared to 30.4 percent of Protiviti revenues one year ago. Adjusted for deferred compensation-related classification impacts, gross margin for Protiviti was 24.0 percent for the quarter just ended, compared to 28.1 percent one year ago. Second quarter Protiviti gross margin included $2.8 million of severance costs related to employee headcount reductions.

Selling, General and Administrative Costs

Enterprise SG&A costs were 33.1 percent of global revenues in the second quarter, compared to 27.3 percent in the same quarter one year ago. Adjusted for deferred compensation-related classification impacts, enterprise SG&A costs were 31.6 percent for the quarter just ended, compared to 30.3 percent one year ago.

Talent solutions SG&A costs were 40.7 percent of talent solutions revenues in the second quarter, versus 32.2 percent in the second quarter of 2022. Adjusted for deferred compensation-related classification impacts, talent solutions SG&A costs were 38.7 percent for the quarter just ended, compared to 36.2 percent one year ago. Second quarter talent solutions SG&A costs included $5.1 million of severance costs related to employee headcount reductions.

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 0.9 percentage points.

Second-quarter SG&A costs for Protiviti were 15.1 percent of Protiviti revenues, compared to 14.0 percent of revenues in the year-ago period as operating expenditures continue to return to more normal pre-pandemic levels. Second quarter Protiviti SG&A costs also included $400 thousand of severance costs related to employee headcount reductions.

Segment Income

Operating income for the quarter was $118 million. This includes severance charges of $8 million or $.05 per share. Adjusted for deferred compensation-related classification impacts, combined segment income was $147 million in the second quarter. Combined segment margin was 8.9 percent. Second-quarter segment income from our talent solutions divisions was $103 million, with a segment margin of 9.0 percent. Segment income for Protiviti in the second quarter was $44 million, with a segment margin of 8.9 percent.

Tax Rate

Our second-quarter tax rate was 30 percent, up from 27 percent for the same quarter one year ago. The higher tax rate for 2023 can be attributed to an increased impact of nondeductible expenses, fewer tax credits as well as lower stock compensation deductions.

Accounts Receivable

At the end of the second quarter, accounts receivable were $974 million, and implied days sales outstanding (DSO) was 53.5 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.

Contract talent solutions exited the second quarter with June revenues down 15 percent versus the prior year, compared to a 14 percent decrease for the full quarter. Revenues for the first two weeks of July were down 15 percent compared to the same period one year ago.

Permanent placement revenues in June were down 26 percent versus June 2022. This compares to a 25 percent decrease for the full quarter. For the first three weeks in July, permanent placement revenues were down 28 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 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: $1.48 billion to $1.58 billion
- Income per share: $0.76 to $0.90

Guidance Assumptions

Midpoint revenues of $1.53 billion are 16 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	17%	to	22%
Protiviti:	Down	4%	to	7%
Overall:	Down	13%	to	18%
Gross margin percentage:				
Contract talent:		39%	to	41%
Protiviti:		25%	to	27%
Overall:		39%	to	41%
SG&A as percent of revenues, excluding deferred compensation classification impacts:				
Talent solutions:		39%	to	41%
Protiviti:		14%	to	16%
Overall:		32%	to	34%
Segment income:				
Talent solutions:		5%	to	8%
Protiviti:		9%	to	12%
Overall:		6%	to	9%
Tax Rate:		29%	to	30%
Shares:		105.5 to 106.5 million		

2023 capital expenditures and capitalized cloud computing costs: $70 million to $80 million, with $13 to $18 million in the third 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 the scarcity of talent persists. Client hiring and project needs continue to be significant. However, the urgency or velocity of that demand is impacted by the prolonged period of macro-economic uncertainty, which continues. As clients become more cost-focused, hiring time frames extend, projects are delayed and contractor workloads are shifted to internal staff. While these factors negatively impact short-term results, they also result in reduced client labor capacity that serves to create pent-up demand for talent as business conditions improve. Historically, there is also a positive correlation between the level of job openings – which currently sit near record levels – and the level of hiring, which bodes well as macro headwinds subside.

We have weathered many economic cycles in the past, each time emerging to achieve higher peaks. Aging workforce demographics and clients' desire for flexible resources and variable costs are structural tailwinds that are expected to continue for many years to come.

Protiviti's regulatory risk and compliance practice leads its solutions offerings with significant double-digit revenue growth. Internal audit and, to a lesser extent, technology consulting are being modestly impacted by client budget pressures where projects are being deferred and/or their scopes limited and new deals are taking longer to close.

Protiviti's pipeline continues to grow and demonstrates its increasing presence in the marketplace. It competes effectively against the other large accounting and consulting firms by differentiating the breadth and depth of its resources. This includes its more concentrated portfolio of specialized solutions and industry expertise, its greater balance of those with consulting backgrounds and professionals who have worked directly in industry, and its priority access to contract talent at all skill levels and at any scale through its relationship with talent solutions. We believe the future for Protiviti is very bright.

We continue to invest in the tools needed to secure top talent for our clients. This includes making enhancements to our advanced technologies and AI. To further improve our already-effective matching engines, we are using our proprietary data and algorithms to customize a latest generation large language model and incorporate it into our AI.

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.

Finally, we are proud to have received a number of new accolades in the second quarter. Robert Half was ranked number one on Forbes' list of America's Best Professional Recruiting Firms, recognized by Fortune as one of the Best Workplaces for Millennials and — just today — named by Forbes as one of America's Best Employers for Women. None of this recognition would be possible without the dedication and commitment of our employees around the world.

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 toda

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