Q3 2023
CONFERENCE CALL

Prepared Remarks From:
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Robert Half®

THIRD-QUARTER 2023 FINANCIAL RESULTS CONFERENCE CALL, PREPARED REMARKS OCTOBER 24, 2023

OPERATOR:

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.

We delivered above-consensus top and bottom-line results for the third quarter, notwithstanding the ongoing macroeconomic uncertainty that lengthens both client and job candidate decision cycles. Both talent solutions and Protiviti exceeded expectations. Gross margins remained strong due to pricing discipline and the ongoing benefit from the rising mix of revenues from higher-skilled services. Our operating cost base also benefited from the targeted actions we have taken to align costs with revenues.

We remain confident — both in our ability to weather the current climate and in our future growth prospects as the macro landscape improves.

For the third quarter of 2023, companywide revenues were $1.564 billion, down 15 percent from last year's third quarter on a reported basis, and down 14 percent on as adjusted basis.

Net income per share in the third quarter was $0.90, compared to $1.53 in the third quarter one year ago.

Cash flow from operations during the quarter was $176 million. In September, 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 11.4 percent annually since its inception in 2004. The September 2023 dividend was 11.6 percent higher than in 2022. We also acquired approximately 1.2 million Robert Half shares during the quarter for $90 million. We have 11.5 million shares available for repurchase under our board-approved stock repurchase plan.

Return on invested capital for the Company was 24 percent in the third quarter.

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

MICHAEL C. BUCKLEY, CFO, ROBERT HALF:

Thank you, Keith. Hello, everyone.

Revenues

As Keith noted, global revenues were $1.564 billion in the third quarter.

On an as adjusted basis, third-quarter talent solutions revenues were down 17 percent year over year. U.S. talent solutions revenues were $823 million, down 20 percent from the prior year's third quarter. Non-U.S. talent solutions revenues were $260 million, down 7 percent year over year on an as adjusted basis. We have 319 talent solutions locations worldwide, including 89 locations in 18 countries outside the United States.

In the third quarter, there were 63.1 billing days, compared to 64.3 billing days in the same quarter one year ago. The fourth quarter of 2023 has 61.1 billing days, compared to 61.2 billing days during the fourth quarter of 2022.

Currency exchange rate movements during the third quarter had the effect of increasing reported year-over-year total revenues by $13 million — $10 million for talent solutions and $3 million for Protiviti.

Contract talent solutions bill rates for the third quarter increased 4.6 percent compared to one year ago, adjusted for changes in the mix of revenues by functional specialization, currency and country. This rate for the second quarter was 6.0 percent.

Now let's take a closer look at results for Protiviti. Global revenues in the third quarter were $481 million: $386 million of that is from business within the United States, and $95 million is from operations outside the United States. On an as adjusted basis, global third-quarter Protiviti revenues were down 5 percent versus the year-ago period. U.S. Protiviti revenues were down 6 percent, while non-U.S. Protiviti revenues were down 2 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, third-quarter gross margin was 39.8 percent of applicable revenues, versus 39.4 percent in the third quarter one year ago. Conversion revenues (or contract-to-hire) were 3.5 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 third quarter were 12.9 percent of consolidated talent solutions revenues, versus 13.8 percent in the same quarter one year ago. When combined with contract talent solutions gross margin, overall gross margin for talent solutions was 47.5 percent, compared to 47.8 percent of applicable revenues in the third quarter last year.

For Protiviti, gross margin was 26.2 percent of Protiviti revenues, compared to 30.5 percent of Protiviti revenues one year ago. Adjusted for deferred compensation-related classification impacts, gross margin for Protiviti was 25.6 percent for the quarter just ended, compared to 30.0 percent last year.

Selling, General and Administrative Costs

Enterprise SG&A costs were 31.8 percent of global revenues in the third quarter, compared to 29.9 percent in the same quarter one year ago. Adjusted for deferred compensation-related classification impacts, enterprise SG&A costs were 32.5 percent for the quarter just ended, compared to 30.6 percent last year.

Talent solutions SG&A costs were 39.3 percent of talent solutions revenues in the third quarter, versus 35.3 percent in the third quarter of 2022. Adjusted for deferred compensation-related classification impacts, talent solutions SG&A costs were 40.4 percent for the quarter just ended, compared to 36.3 percent last year.

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 0.5 percentage points.

Third-quarter SG&A costs for Protiviti were 14.7 percent of Protiviti revenues, compared to 16.0 percent of revenues last year.

Segment Income

Operating income for the quarter was $144 million. Adjusted for deferred compensation-related classification impacts, combined segment income was $130 million in the third quarter. Combined segment margin was 8.3 percent. Third-quarter segment income from our talent solutions divisions was $78 million, with a segment margin of 7.2 percent. Segment income for Protiviti in the third quarter was $52 million, with a segment margin of 10.9 percent.

Tax Rate

Our third-quarter tax rate was 30 percent, up from 26 percent for the same quarter one year ago. The higher tax rate for 2023 can be attributed to an increased impact from nondeductible expenses and fewer tax credits.

Accounts Receivable

At the end of the third quarter, accounts receivable were $941 million, and implied days sales outstanding (DSO) was 54.2 days.

Guidance

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

Contract talent solutions exited the third quarter with September revenues down 17 percent versus the prior year, compared to a 16 percent decrease for the full quarter. Revenues for the first two weeks of October were down 17 percent compared to the same period last year. On a week-on-week sequential basis, the rates of decline have narrowed over the past 10 to 12 weeks.

Permanent placement revenues in September were down 26 percent versus September 2022. This compares to a 23 percent decrease for the full quarter. For the first three weeks in October, permanent placement revenues were down 24 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 third quarter and into October. 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 fourth-quarter guidance:

- Revenues: $1.415 billion to $1.515 billion
- Income per share: $0.75 to $0.89

Guidance Assumptions

Midpoint revenues of $1.465 billion are 15 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	15%	to	20%
Protiviti:	Down	8%	to	10%
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:	15%	to	17%
Overall:	32%	to	34%

Segment income:

Talent solutions:	5%	to	8%
Protiviti:	9%	to	12%
Overall:	6%	to	9%

Tax Rate:	27%	to	28%
Shares:	104.5 to 105.5 million		

2023 capital expenditures and capitalized cloud computing costs: $80 million to $90 million, with $20 to $25 million in the fourth 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.

Consistent with prior quarters — job openings remain elevated, unemployment levels remain low and monthly job gains remain healthy. Macroeconomic forecasts are mixed and this is reflected in clients' continued hiring caution. 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. Many times this is funded with a reduction in their contract staff. In addition, job candidates are more reluctant to make career moves, fearing they may become the last-in and first-out in their new roles. The net result is less churn in the labor market.

In talent solutions we continue to strategically invest in services involving higher-skilled positions across our practice groups. This carries 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.

The cumulative sequential revenue declines during the first five quarters of the current downturn are less than half of what they were compared to the same periods of the dot-com and financial crisis downturns. A significant factor in this improvement is the greater resiliency of higher-skilled services. Our current mix of contract revenues from higher-skilled positions is over 50 percent — nearly double the percentage during the dot-com downturn. We expect this positive mix shift to continue.

Protiviti's regulatory risk and compliance practice continues to be strong and again posted significant double-digit revenue growth for the quarter. Internal audit and, to a lesser extent, technology consulting are being modestly impacted by client budget pressures. Protiviti's pipeline continues to be very strong, although economic conditions are impacting the average deal size and the time it takes to close contracts and begin new engagements. Protiviti continues to compete effectively in the marketplace, and its prospects are very positive.

We have weathered many economic downturns in the past, each time emerging to achieve higher peaks. With our current portfolio of talent and Protiviti solutions, we are even more confident about our future.

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'd like to thank our employees across the globe for their efforts, which made possible prestigious new accolades in the third quarter. Robert Half was honored by TIME Magazine as one of the World's Best Companies and by Forbes as one of the World's Best Employers. And — just today — we were again recognized as one of Fortune's Best Workplaces for Women.

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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