Q3 2017 CONFERENCE CALL

Prepared Remarks From:
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THIRD-QUARTER 2017 FINANCIAL RESULTS
CONFERENCE CALL, OCTOBER 24, 2017
PREPARED REMARKS

OPERATOR:

Hello, and welcome to the Robert Half third-quarter 2017 conference call. Our hosts for today's call are Mr. Max Messmer, chairman and CEO of Robert Half, and Mr. Keith Waddell, vice chairman, president and chief financial officer. Mr. Messmer, you may begin.

INTRODUCTION

HAROLD M. "MAX" MESSMER, JR., CHAIRMAN AND CEO, ROBERT HALF:

Good afternoon, everyone. Thank you for joining us.

Before we review our third-quarter results, I would like to remind you there are comments on today's call that contain predictions, estimates and other forward-looking statements. These statements represent our current judgment of what the future holds and include words such as "forecast," "estimate," "project," "expect," "believe," "guidance" and similar expressions. We believe these remarks to be reasonable; however, they are subject to risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Some of these risks and uncertainties are described in today's press release and in our SEC filings, including our 10-Ks, 10-Qs and today's 8-K. We assume no obligation to update the statements made on today's call.

For your convenience, our prepared remarks also are available on our website, www.roberthalf.com. From the home page, click on "Investor Center" at the top of the page. You will find the Quarterly Conference Calls link in the Investor Center.

Now, let's review our third-quarter financial results. Revenues were $1.325 billion, essentially flat on a same-day, constant-currency basis compared to the third quarter one year ago, and down 1 percent on a reported basis. Income per share was 68 cents. Both revenues and EPS were slightly below the midpoint of our third-quarter guidance. Cash flow from operations was $129 million, and capital expenditures were $7 million.

In the third quarter, we returned $30 million to our shareholders through a $0.24 per share cash dividend. We also repurchased 800,000 Robert Half shares for $37 million during the quarter. We have 3.4 million shares available for repurchase under our board-approved stock repurchase plan.

Our third-quarter results were generally as expected and within the range of our previous guidance, led by our strong European operations. Trends strengthened during the quarter, and we are very encouraged by the broad-based improvement in revenue growth rates that began in September and continued into October, particularly in the United States.

During the third quarter, return on invested capital for the company was 30 percent.

Now, I'll turn the call over to Keith for a closer look at our results.

M. KEITH WADDELL, VICE CHAIRMAN, PRESIDENT AND CFO, ROBERT HALF:

Revenues
Thank you, Max. Global revenues in the third quarter were $1.325 billion, down 1 percent from last year's third quarter on a reported basis, and roughly flat on a same-day, constant-currency basis.

Third-quarter revenues for our staffing business were up 0.3 percent year over year on a same-day, constant-currency basis. U.S. staffing revenues were $854 million, down 2 percent on a same-day basis, while non-U.S. staffing revenues were $262 million, up 11 percent when adjusted for billing days and currency-exchange rates. We have 324 staffing locations worldwide, including 83 locations in 17 countries outside the United States.

The third quarter had 63.1 billing days, compared to 64.1 days in the third quarter one year ago. This reduced reported year-over-year revenue growth rates by 1.5 percent. The current fourth quarter has 61.3 billing days, compared to 61.4 days in the fourth quarter of 2016.

Accompanying our earnings release is a supplemental schedule showing year-over-year revenue growth rates on both a reported and same-day, constant-currency basis. This data is further broken out by U.S. and non-U.S. operations. This is a non-GAAP financial measure that offers insight into certain revenue trends in our operations.

The effect of currency-exchange rates increased our reported year-over-year staffing revenues by $9 million in the third quarter, which boosted year-over-year reported staffing growth rates by 0.8 percent.

For Protiviti, global third-quarter revenues were $209 million, with $170 million coming from revenues within the United States and $39 million from revenues outside the United States. Protiviti revenues were down 3 percent year over year on a same-day, constant-currency basis.

U.S. Protiviti revenues in the third quarter were down 5 percent from the prior year on a same-day basis, and non-U.S. revenues were up 12 percent on a same-day, constant-currency basis. Exchange rates had the effect of increasing year-over-year Protiviti revenues by $1 million in the third quarter and increasing the year-over-year reported growth rate by 0.3 percent. Protiviti and its independently owned Member Firms serve clients through a network of 76 locations in 26 countries.

Gross Margin
Now, let's turn to gross margin. Third-quarter gross margin in our temporary and consulting staffing operations was 37.2 percent of applicable revenues. This is a 20 basis-point decline from the same period one year ago.

Third-quarter revenues for our permanent placement operations were 10.0 percent of consolidated staffing revenues, which is up from last year's 9.4 percent. Together with temporary and consulting gross margin, overall staffing gross margin increased 10 basis points versus one year ago, to 43.4 percent.

Gross margin for Protiviti in the third quarter was $62 million, or 29.6 percent of Protiviti revenues. In the third quarter of 2016, Protiviti gross margin was $67 million, or 30.9 percent of Protiviti revenues.

Selling, General and Administrative Costs
Staffing SG&A costs were 33.8 percent of staffing revenues versus 32.7 percent in last year's third quarter.

Third-quarter SG&A costs for Protiviti were 17.9 percent of Protiviti revenues, the same as last year's third quarter.

Operating Income
Operating income from our staffing divisions was $108 million in the third quarter, down 9 percent from one year ago. Operating margin was 9.6 percent. Our temporary and consulting staffing divisions reported $88 million in operating income, down 10 percent from last year, resulting in an operating margin of 8.7 percent. Third-quarter operating income for our permanent placement division was $20 million, down 2 percent from the prior year, producing an operating margin of 17.9 percent. Operating profit for Protiviti was $24 million in the third quarter, a decrease of 13 percent from 2016, producing an operating margin of 11.8 percent.

Accounts Receivable
Accounts receivable were $738 million at the end of the third quarter. Implied days sales outstanding (DSO) was 50.7 days.

Guidance
Before providing guidance for the fourth quarter, let's review the monthly revenue trends we saw in the third quarter and so far in October, all adjusted for currency.

Our temporary and consulting staffing divisions exited the third quarter with September revenues up 2.1 percent versus the prior year, compared to a 0.4 percent decline for the full quarter. Revenue growth for the first two weeks of October was up 2.0 percent compared to that period in 2016.

For our permanent placement operations, September revenues were up 7.2 percent versus last year, compared to a 6.7 percent increase reported for the full quarter. For the first three weeks in October, permanent placement revenues were up 21 percent compared to the same period last year.

These are the trends we saw during the third quarter and so far in October. But, as you know, we hesitate to read too much into these numbers as they represent very brief periods of time.

With that said, we offer the following fourth-quarter guidance:

- Revenues: $1 billion, 287 million to $1 billion, 347 million
- Income per share: $0.60 to $0.66

The midpoint of our fourth-quarter guidance range implies year-over-year revenue growth of 4 percent on a reported basis, and 3 percent adjusted for days and currency. EPS would be up 3 percent versus last year at the midpoint of our guidance range.

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 Max.

MAX MESSMER, CHAIRMAN AND CEO, ROBERT HALF:

Thank you, Keith. As noted earlier on the call, we are very encouraged by the recent improving trends we are seeing globally, including in the United States. These trends and the related business climate are favorable for our staffing operations and Protiviti.

In the United States, economic activity increased across all 12 Federal Reserve districts, according to the latest Beige Book report. In the report, the Fed noted that labor markets are tight, and employers are having difficulty finding qualified talent.

In addition, the International Monetary Fund described a positive global economic outlook at their recent meetings in Washington, D.C., reporting broad-based optimism from most major world economies. The growth outlook for the United States is 2.2 percent for 2017, which is a significant improvement from last year's meager 1.5 percent GDP growth. We are hopeful this portends more business investments and stronger growth among U.S. companies.

We believe these investments would benefit both our staffing operations and Protiviti. Revenue growth in Protiviti operations outside the United States, like our staffing business, was stronger than in U.S. Protiviti operations.

We're very excited about our ongoing investments in technology innovation at Robert Half. We completed the global rollout of our CRM software this summer. We also recently unveiled a new website that provides an exceptional user experience for our clients and job candidates, and better meets the preferences of our customers who want digital service options from the businesses they work with.

Now, Keith and I would be happy to answer your questions. We ask that you please limit yourself to one question and a single follow-up, as needed. If time permits, we'll try to return to you if you have additional questions.

Q&A SESSION

MAX MESSMER, CHAIRMAN AND CEO, ROBERT HALF:

That was our last question. We would like to thank everyone again for joining us on today's call.

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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