Q3 2018 CONFERENCE CALL

Prepared Remarks From:
Harold M. Messmer, Jr., Chairman and CEO, Robert Half International
M. Keith Waddell, Vice Chairman, President and CFO, Robert Half International

October 23, 2018

Robert Half®

THIRD-QUARTER 2018 FINANCIAL RESULTS
CONFERENCE CALL, OCTOBER 23, 2018
PREPARED REMARKS

OPERATOR:

Hello, and welcome to the Robert Half third-quarter 2018 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:

Hello, everyone. Thank you for joining us.

Before we begin, I would like to remind everyone that comments made on today's call 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 at roberthalf.com. From the home page, click on "Investor Center" at the bottom left of the page. You will find the Quarterly Conference Calls link in the Investor Center.

Now, let's review Robert Half's financial results for the third quarter of 2018. Companywide revenues were $1.466 billion. This is up 11 percent on both a reported and same-day, constant-currency basis compared to the third quarter of last year.

Net income per share in the third quarter was 95 cents, up 39 percent compared to the third quarter of 2017.

Cash flow from operations was $185 million and capital expenditures were $10 million in the third quarter. We paid a 28-cent dividend to stockholders in September at a total cost of $34 million. We also repurchased 1.1 million Robert Half shares in the third quarter, at a cost of $79 million. We have 9.1 million shares available for repurchase under our board-approved stock repurchase plan.

All of our staffing divisions and Protiviti reported solid year-over-year revenue gains in the third quarter. Our permanent placement and Protiviti operations performed particularly well during the quarter.

Skills shortages persist globally, driving heightened demand for skilled talent, especially in the professional-level segments in which Robert Half specializes. Also buoying our business is the sustained optimism among small and midsize companies, particularly in the United States, which is leading to increased hiring activity by this key client base.

Return on invested capital for the company was 41 percent during the third quarter.

I'll turn the call over to Keith now for a closer look at our third-quarter results.

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

Thank you. As Max just noted, global revenues in the third quarter were $1.466 billion. This is up 11 percent from the year-ago period on both a reported and same-day, constant-currency basis.

Accompanying our earnings release is a supplemental schedule showing year-over-year revenue growth rates on both a reported and as-adjusted basis. These figures are further broken out by U.S. and non-U.S. operations. The term "as-adjusted" reflects the removal of the impact of billing days, currency fluctuations and certain intercompany adjustments in our international operations. This is a non-GAAP financial measure designed to provide insight into certain revenue trends in our operations.

Third-quarter total staffing revenues were up 10 percent on an as-adjusted basis, comprised of U.S. staffing revenues of $920 million, up 7 percent on a same-day basis, and non-U.S. staffing revenues of $293 million, up 18 percent on an as-adjusted basis. We have 324 staffing locations worldwide, including 85 locations in 17 countries outside the United States.

The third quarter had 63.3 billing days, compared to 63.1 days in the third quarter of 2017. The current fourth quarter has 61.7 billing days, compared to 61.3 days in the fourth quarter one year ago.

Currency exchange rate movements versus the prior year had the effect of decreasing reported year-over-year staffing revenues by $9 million in the third quarter, which reduced the year-over-year reported staffing revenue growth rate by 0.8 percent.

For Protiviti, third-quarter global revenues were $253 million, with $200 million coming from business within the United States and $53 million from operations outside the United States. Protiviti revenues were up 18 percent year over year on an as-adjusted basis.

Third-quarter U.S. Protiviti revenues were up 17 percent from last year on a same-day basis, while non-U.S. revenues were up 20 percent on an as-adjusted basis. Exchange rates had the effect of decreasing year-over-year Protiviti revenues by $1 million in the third quarter and decreasing the year-over-year reported growth rate by 0.6 percent. Protiviti and its independently owned Member Firms serve clients through a network of 81 locations in 25 countries.

Gross Margin
Now, let's turn to gross margin. Gross margin in our temporary and consulting staffing operations during the third quarter was 37.8 percent of applicable revenues, compared to 37.2 percent of applicable revenues in the same period one year ago. Expanding bill/pay spreads and higher temp-to-hire conversion fees offset larger fringe benefit costs.

Third-quarter revenues for our permanent placement operations were 10.7 percent of consolidated staffing revenues, compared to 10.0 percent of consolidated staffing revenues in the third quarter one year ago. When combined with temporary and consulting gross margin, overall staffing gross margin increased 110 basis points versus one year ago, to 44.5 percent.

For Protiviti, gross margin in the third quarter was $71 million, or 28.1 percent of Protiviti revenues. One year ago, gross margin for Protiviti was $62 million, or 29.6 percent of Protiviti revenues.

Selling, General and Administrative Costs
Third-quarter staffing SG&A costs were 34.1 percent of staffing revenues, versus 33.8 percent in last year's comparable period. The higher mix of permanent placement revenues this quarter versus a year ago added 40 basis points to the quarter's SG&A ratio.

SG&A costs for Protiviti were 18.0 percent of Protiviti revenues in the third quarter, compared to 17.9 percent of Protiviti revenues in the year-ago period.

Operating Income
Third-quarter operating income from our staffing divisions was $126 million, up 17 percent from the same period one year ago. Operating margin was 10.4 percent.

Our temporary and consulting staffing divisions reported $103 million in operating income, an increase of 17 percent from the prior year's third quarter. This resulted in an operating margin of 9.5 percent.

Operating income for our permanent placement division was $23 million in the third quarter. This was up 15 percent from the prior year and produced an operating margin of 17.7 percent.

Operating profit for Protiviti was $25 million in the third quarter, an increase of 4 percent from the same period in the prior year. This produced an operating margin of 10.1 percent.

Accounts Receivable
At the end of the third quarter, accounts receivable were $834 million, and implied days sales outstanding (DSO) was 51.1 days.

Guidance
Before we move to fourth-quarter guidance, let's review some of the monthly revenue trends we saw in the third quarter of 2018 and so far in October, all adjusted for currency and billing days.

Our temporary and consulting staffing divisions exited the third quarter with September revenues up 9.0 percent versus the prior year, compared to 8.9 percent for the full quarter. Revenues for the first two weeks of October were up 9 percent compared to that same period in 2017.

For our permanent placement division, September revenues were up 19.1 percent versus last year, compared to a 17.4 percent increase for the full quarter. For the first three weeks in October, permanent placement revenues were up 20 percent compared to the same period last year.

This information provides a look into some of the trends we saw during the third quarter and so far in October. But, as you know, they represent brief periods of time, and we caution against reading too much into them.

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

- Revenues: $1 billion, 430 million to $1 billion, 495 million
- Income per share: $0.88 to $0.94

The midpoint of our fourth-quarter guidance implies year-over-year revenue growth of 9 percent on a same-day, as-adjusted basis (including Protiviti) and EPS growth of 40 percent.

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. It was another strong quarter. Year-over-year revenue growth rates were solid across the board for our staffing divisions and Protiviti. We were particularly pleased with the performance of Robert Half Finance & Accounting and Protiviti in the third quarter.

In the United States, hiring by small and midsize businesses, our primary client target, is at historic levels, according to recent research. This year, the National Federation of Independent Business reported 45-year highs in measures for job openings, hiring plans and actual job creation. In the most recent Vistage CEO Confidence Index, 63 percent of CEOs at small and midsize businesses reported plans to expand their workforce in the year ahead.

Other indicators are equally positive. The number of job openings in the United States hit a record 7.14 million in August, according to the most recent JOLTS report from the Department of Labor. The number of quits was also near an all-time high in the same survey. This is often seen as a sign that employees feel confident in leaving an existing job for a better one. U.S. unemployment remains very low at 3.7 percent, and in professional occupations it is much lower than that.

Employers need help identifying and hiring skilled talent in this tighter market, and with our rich candidate database, proprietary matching technology, and local-market knowledge, we are well positioned to partner with them on their efforts.

Demand is also strong for the consulting and internal audit solutions provided by Protiviti. Protiviti has expanded its service offerings and continues to nurture and grow a loyal client base. We are also pleased with the collaboration between our staffing divisions and Protiviti. Together, these teams provide us with a key differentiator: the ability to offer businesses highly regarded consulting solutions and technologies combined with access to a vast network of experienced interim talent to implement these solutions.

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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