# Q4 2017 CONFERENCE CALL

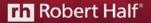
Prepared Remarks From:

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

January 30, 2018







# FOURTH-QUARTER 2017 FINANCIAL RESULTS CONFERENCE CALL, JANUARY 30, 2018 PREPARED REMARKS

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#### **OPERATOR:**

Hello, and welcome to the Robert Half fourth-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.

I would like to preface today's remarks with a reminder that some of the comments we will make 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 <u>roberthalf.com</u>. 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 results for the fourth quarter. Quarterly revenues for the company were \$1.346 billion, up 6 percent on a reported basis and up 5 percent on a same-day, constant-currency basis from the year-ago period. This is near the high end of the range of our previously provided revenue guidance.

Net income per share was 38 cents. You may recall that in December we revised our fourthquarter guidance for net income per share to take into account the estimated impact of a one-time, non-cash charge to our provision for income taxes related to the recent enactment of the Tax Cuts and Jobs Act in the United States. The actual amount recorded was \$34 million, or 27 cents per share, and resulted primarily from a revaluation of our deferred income tax net assets as of December 31, 2017. Excluding this charge, our net income per share was 65 cents for the quarter.

We anticipate subsequent regulation associated with the Tax Cuts and Jobs Act will be forthcoming and will provide us with additional guidance on application of the law. As of now, we estimate that beginning in 2018 our global effective income tax rate will be in the range of 26 percent to 28 percent.

Cash flow from operations was \$65 million in the fourth quarter, and capital expenditures were \$12 million. We returned \$30 million to our shareholders during the fourth quarter through a cash dividend of \$0.24 per share. We also repurchased 1.1 million Robert Half shares, at a cost of \$59 million. We have 2.3 million shares available for repurchase under our board-approved stock repurchase plan.

We were encouraged by the broad-based acceleration of revenue growth rates during the fourth quarter in our staffing operations and Protiviti. Both our U.S. and non-U.S. operations posted strong results, with our permanent placement business leading the way. The U.S. labor market continues to tighten, resulting in talent shortages in some occupations and higher demand for our services.

Return on invested capital during the fourth quarter was 17 percent. Excluding the impact of the one-time, non-cash charge previously mentioned, return on invested capital for the fourth quarter was 28 percent.

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

# Revenues

Thank you, Max. As just noted, global revenues were \$1.346 billion in the fourth quarter. This is up 6 percent from the fourth quarter of 2016 on a reported basis and up 5 percent on a same-day, constant-currency basis.

Fourth-quarter staffing revenues were up 5 percent on a same-day, constant-currency basis. U.S. staffing revenues were \$863 million in the fourth quarter, up 2 percent on a same-day basis, while non-U.S. staffing revenues were \$269 million, up 15 percent when adjusted for billing days and currency-exchange rates. We have 323 staffing locations worldwide, including 83 locations in 17 countries outside the United States.

The fourth quarter had 61.3 billing days, compared to 61.4 days in the fourth quarter one year ago. The current first guarter has 63.0 billing days, compared to 63.4 days in the first guarter of 2017.

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. These figures are further broken out by U.S. and non-U.S. operations. This is a non-GAAP financial measure designed to provide insight into certain revenue trends in our operations.

Currency-exchange rates had the effect of increasing reported year-over-year staffing revenues by \$17 million in the fourth quarter, which boosted year-over-year reported staffing revenue growth rates by 1.6 percent.

Global revenues for Protiviti were \$214 million in the fourth quarter, with \$173 million coming from revenues in the United States and \$41 million from revenues outside the United States. Protiviti revenues were up 6 percent year over year on a same-day, constant-currency basis.

U.S. Protiviti revenues were up 2 percent from the prior year on a same-day basis, and non-U.S. revenues were up 23 percent. Exchange rates had the effect of increasing year-over-year Protiviti revenues by \$2 million in the fourth quarter and increasing the year-over-year reported growth rate by 1 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. Gross margin in our temporary and consulting staffing operations was 37.0 percent of applicable revenues in the fourth quarter, compared to 38.0 percent of applicable revenues in the same period one year ago. Our fourth-quarter results include \$0.9 million in workers' compensation credits, pursuant to third-party actuarial reviews of our workers' compensation accruals. This compares to \$4.3 million in the year-ago period.

Fourth-quarter revenues for our permanent placement operations were 9.9 percent of consolidated staffing revenues, compared to 8.9 percent of consolidated staffing revenues in last year's fourth quarter. When combined with temporary and consulting gross margin, overall staffing gross margin declined 30 basis points versus one year ago, to 43.2 percent.

Fourth-quarter gross margin for Protiviti was \$64 million, or 30.0 percent of Protiviti revenues. Gross margin one year ago for Protiviti was \$57 million, or 28.3 percent of Protiviti revenues.

### **Selling, General and Administrative Costs**

Staffing SG&A costs were 34.1 percent of staffing revenues in the fourth quarter versus 33.6 percent in the previous year's fourth quarter. We ended 2017 with 13,600 full-time employees in our staffing divisions, up 7 percent from the prior year.

SG&A costs for Protiviti were 17.9 percent of Protiviti revenues in the fourth quarter, compared to 18.3 percent of Protiviti revenues in the year-ago period. We ended 2017 with 4,000 full-time Protiviti employees and contractors, flat with the prior year.

#### **Operating Income**

Fourth-quarter operating income from our staffing divisions was \$103 million, down 2 percent from the prior year. Operating margin was 9.1 percent. Our temporary and consulting staffing divisions reported \$85 million in operating income, a decrease of 7 percent from the prior year. This resulted in an operating margin of 8.3 percent. Fourth-quarter operating income for our permanent placement division was \$18 million, up 35 percent from the prior year and producing an operating margin of 16.5 percent. Operating profit for Protiviti was \$26 million in the fourth quarter, an increase of 28 percent from the prior year. This produced an operating margin of 12.1 percent.

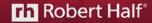
#### **Accounts Receivable**

At the end of the fourth quarter, accounts receivable were \$732 million. Implied days sales outstanding (DSO) was 49.5 days.

#### Guidance

Before we move to first-quarter guidance, let's review the monthly revenue trends we saw in the fourth quarter of 2017 and so far in January, all adjusted for currency and billing days.

Our temporary and consulting staffing divisions exited the fourth quarter with December revenues up 5.8 percent versus the prior year, compared to 3.8 percent growth for the full quarter. Revenue for the first two weeks of January was up 3.3 percent compared to that same period in 2017, and was impacted by the recent East Coast storms.



For our permanent placement operations, December revenues were up 15.9 percent versus last year, compared to a 16.1 percent increase reported for the full quarter. For the first three weeks in January, permanent placement revenues were up 11.9 percent compared to the same period last year.

This information is designed to offer a glimpse into trends we saw during the fourth quarter and in January. But, as you know, we hesitate to read too much into them as they represent brief periods of time, and they cover holiday periods, which can be volatile.

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

- Revenues: \$1 billion, 335 million to \$1 billion, 395 million
- Income per share: \$0.70 to \$0.76

The midpoint of our first-quarter guidance implies year-over-year revenue growth of 4.3 percent on a same-day, constant-currency basis (including Protiviti) and EPS growth of 18 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. Robert Half ended the year with record annual revenues. We were encouraged by the continued improvement in our U.S. operations during the fourth quarter and pleased with the strength of our non-U.S. staffing and Protiviti operations, which had another outstanding quarter.

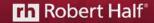
Many factors are contributing to a more favorable business environment, including a nice pickup in GDP growth in the United States. Likewise, the most recent Beige Book reported that all 12 Federal Reserve districts saw economic expansion, with most also citing tighter labor markets from late November through year-end. The number of temporary workers as a percentage of the overall U.S. workforce reached an all-time high in the fourth quarter, which suggests a growing reliance by businesses on interim professionals for meeting highly specialized and variable workload demands.

Skills shortages in professional occupations remain a concern for many businesses, and this is resulting in a greater need for staffing and recruitment services. The U.S. unemployment rate remains at a 17-year low.

We feel good about how Robert Half is positioned right now, including our ongoing technology investments. We have incorporated state-of-the-art technology into nearly every step of our processes, which enables us to provide a seamless online experience for customers. We've also made investments in training to ensure our internal teams are making the best use of our tools. We are continuing to look at ways to provide more online services to our customers.

Our competitive advantage lies in the combination of technology and personal service that we provide. Offered in tandem, our customized, proprietary technologies complemented by an easy in-person experience working with our staffing professionals give our clients the best opportunity to find the right person every time for their business needs — and avoid costly and disruptive staffing mistakes.

I also want to provide more color on Protiviti's fourth-quarter results. Protiviti continues to see solid growth in its risk and compliance and internal audit and financial advisory practice areas. Protiviti also is expanding its solutions in areas such as data and analytics, and cybersecurity. Other expanding practice areas include digital transformation, business process efficiency and managed



business services, as well as helping financial services clients manage changes in the FinTech (financial technology) and RegTech (regulation technology) space. We are optimistic about the business opportunities ahead for Protiviti.

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 <a href="www.roberthalf.com">www.roberthalf.com</a>. 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.

