Q4 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

January 29, 2019

FOURTH-QUARTER 2018 FINANCIAL RESULTS CONFERENCE CALL, JANUARY 29, 2019 PREPARED REMARKS

OPERATOR:

Hello, and welcome to the Robert Half fourth-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 your time today.

Before we get started, I would like to remind everyone that comments made on our call today 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 consider 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, we've made our prepared remarks 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 turn our attention to Robert Half's financial results for the fourth quarter of 2018. Companywide revenues were $1.482 billion. This is up 10 percent on both a reported and same-day, constant-currency basis, compared to the fourth quarter of 2017.

Net income per share in the fourth quarter was 95 cents, compared to 38 cents in the fourth quarter of 2017. You may recall that in the fourth quarter of 2017, we recorded a one-time, noncash charge to our provision for income taxes related to the enactment of the U.S. Tax Cuts and Jobs Act. The 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 fourth quarter of 2017. Accompanying the release is a supplemental schedule showing year-over-year net income and diluted net income growth on both a reported and as-adjusted basis. The term “as-adjusted” reflects the impact to our 2017 and 2018 provisions for income taxes resulting from the Tax Cuts and Jobs Act.

Cash flow from operations was $123 million, and capital expenditures were $15 million in the fourth quarter. In December 2018, we distributed a total of $34 million to shareholders in the form of a 28-cents-per-share quarterly cash dividend. We also repurchased 2.4 million Robert Half shares in the fourth quarter, at a cost of $137 million. We have 6.7 million shares available for repurchase under our board-approved stock repurchase plan.

We ended the year strongly, with double-digit year-over-year growth in revenues and operating income on both a quarterly and annual basis. Full-year 2018 revenues and operating income reached all-time-high levels for the company, with broad-based strength in our staffing and Protiviti operations.

The U.S. labor market remains very robust, with significant demand due to talent shortages across our professional disciplines.

During the fourth quarter, return on invested capital for the company was 42 percent.

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

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

Revenues

Thank you. As Max just noted, global revenues in the fourth quarter were $1.482 billion. This is up 10 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,” in this case, 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.

Fourth-quarter total staffing revenues were up 9 percent on an as-adjusted basis. U.S. staffing revenues were $934 million, up 7 percent on a same-day basis, and non-U.S. staffing revenues were $285 million, up 14 percent on an as-adjusted basis. We have 324 staffing locations worldwide, including 85 locations in 17 countries outside the United States.

The fourth quarter had 61.7 billing days, compared to 61.3 days in the fourth quarter of 2017. The current first quarter has 62.2 billing days, compared to 63.0 days in the first quarter one year ago.

Currency exchange rate movements versus the prior year had the effect of decreasing reported year-over-year staffing revenues by $12 million in the fourth quarter, which reduced our year-over-year reported staffing revenue growth rate by 1.0 percent.

Fourth-quarter global revenues for Protiviti were $263 million, with $204 million coming from business within the United States and $59 million from operations outside the United States. Protiviti revenues were up 19 percent year over year on an as-adjusted basis.

On a same-day basis, U.S. Protiviti revenues were up 16 percent year over year in the fourth quarter, while non-U.S. revenues were up 30 percent on an as-adjusted basis. Exchange rates had the effect of decreasing year-over-year Protiviti revenues by $2 million in the fourth quarter and decreasing the year-over-year reported growth rate by 0.9 percent. Protiviti and its independently owned Member Firms serve clients through a network of 83 locations in 26 countries.

Gross Margin

Now, let's turn to gross margin in the fourth quarter. Gross margin in our temporary and consulting staffing operations was 38.0 percent of applicable revenues, compared to 37.0 percent of applicable revenues in the same period one year ago. Expanding bill/pay spreads and higher temp-to-hire conversion fees contributed significantly to the increase.

Fourth-quarter revenues for our permanent placement operations were 10.3 percent of consolidated staffing revenues, versus 9.9 percent of consolidated staffing revenues in the fourth quarter of 2017. When combined with temporary and consulting gross margin, overall staffing gross margin increased 120 basis points versus one year ago, to 44.4 percent.

For Protiviti, gross margin in the fourth quarter was $80 million, or 30.2 percent of Protiviti revenues. One year ago, gross margin for Protiviti was $64 million, or 30.0 percent of Protiviti revenues.

Selling, General and Administrative Costs

Fourth-quarter staffing SG&A costs were 34.5 percent of staffing revenues, compared to 34.1 percent one year ago. The higher mix of permanent placement revenues this quarter versus one year ago added 20 basis points to the quarter's SG&A ratio. We ended 2018 with 14,900 full-time employees in our staffing divisions, up 9 percent from the prior year.

SG&A costs for Protiviti were 17.3 percent of Protiviti revenues in the fourth quarter, compared to 17.9 percent of Protiviti revenues in the year-ago period. We ended 2018 with 4,700 full-time Protiviti employees and contractors, up 18 percent from the prior year.

Operating Income

Fourth-quarter operating income from our staffing divisions was $120 million, up 16 percent from the fourth quarter of 2017. Operating margin was 9.8 percent.

Our temporary and consulting staffing divisions reported $102 million in operating income, an increase of 20 percent from the fourth quarter of last year. This resulted in an operating margin of 9.3 percent.

In the fourth quarter, operating income for our permanent placement division was $18 million. This was down 2 percent from the prior year and produced an operating margin of 14.4 percent.

Operating profit for Protiviti was $34 million in the fourth quarter, an increase of 32 percent from the prior year's fourth quarter. This produced an operating margin of 12.9 percent.

Accounts Receivable

At the end of the fourth quarter, accounts receivable were $794 million, and implied days sales outstanding (DSO) was 48.1 days.

Guidance

Before we move to first-quarter guidance for 2019, let's review some of the monthly revenue trends we saw in the fourth quarter of 2018 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 6.7 percent versus the prior year, compared to an 8.0 percent increase for the full quarter. Revenues for the first three weeks of January were up 10 percent compared to January of 2018.

December revenues for our permanent placement division were up 15.5 percent versus 2017, compared to a 13.5 percent increase for the full quarter. For the first four weeks in January, permanent placement revenues were up 15 percent compared to the same period last year.

This information provides a look into some of the trends we saw during the fourth quarter and in January. 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 first-quarter guidance:

- Revenues: $1 billion, 460 million to $1 billion, 525 million
- Income per share: $0.92 to $0.98

The midpoint of our first-quarter guidance implies year-over-year revenue growth of 10 percent on a same-day, as-adjusted basis (7 percent on a reported basis before adjusting for billing-day and currency drags) and EPS growth of 21 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. We ended the year with record results, and we continue to benefit from a very strong labor market.

Companies are having trouble locating the talent they need, and Robert Half is the expert at doing this work for them. We are experienced at helping our clients find and, more importantly, hire candidates with hard-to-find skill sets, many of whom will have competing offers from other employers. Our success is due to our personalized approach, something we have excelled at for 70 years.

I'd like to talk a little bit about the economy, and how we view the current environment. If you look at Main Street, particularly the small and midsize companies that make up the majority of our staffing clients, they need people to continue to grow their businesses. According to NFIB research, business optimism remains near historically high levels for this group. The Vistage CEO Confidence Index, which also measures small business optimism, has recently shown a modest weakening in business confidence (from a very high level), yet hiring plans remain robust. This tells us that small business owners are moving forward with hiring plans. In fact, the NFIB reported a record number of job openings last month. Not being able to fill these jobs fast enough is the biggest barrier to growth — 60 percent of business owners said they are hiring or trying to hire, and 90 percent of those reported few or no qualified applicants.

These are compelling statistics, and we believe they are evidence of a job market that is going to remain strong for the foreseeable future.

Skills shortages are global, and we are confident we can be a valuable resource to companies as they navigate this tight market. It's one of the reasons we have invested so heavily in developing our proprietary matching technology and laying the foundation for a world-class client and candidate experience online. But we believe you need a combination of technology and seasoned staffing professionals to be truly effective at finding the right match between client and job candidate. We are making digital investments, and we are making people investments, to ensure we have the right mix of both.

Quarterly results for Protiviti also reached an all-time high in the fourth quarter. We are very pleased with how this business is performing. Financial services continues to be Protiviti's biggest industry sector. They are also putting greater focus on the technology sector. Protiviti's cybersecurity services remained strong during the quarter, as did their wide range of internal audit and risk and compliance solutions, such as anti-money laundering services and work in the area of digital transformation.

And we are optimistic about the successful go-to-market strategy with Protiviti and our staffing operations. We are providing a full spectrum of consulting, staff augmentation and managed services for our clients.

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 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 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.