Q4 2019 CONFERENCE CALL

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FOURTH-QUARTER 2019 FINANCIAL RESULTS
CONFERENCE CALL, JANUARY 30, 2020
PREPARED REMARKS

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OPERATOR:

Hello, and welcome to the Robert Half fourth-quarter 2019 conference call. Our hosts for today's call are Mr. Keith Waddell, chief executive officer of Robert Half, and Mr. Michael Buckley, chief financial officer. Mr. Waddell, you may begin.

INTRODUCTION

M. KEITH WADDELL, CEO, ROBERT HALF:

Hello, everyone. Thank you for joining today's call.

Before we begin, 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 explanations of these measures are included in a supplemental schedule to our earnings press release.

For your convenience, our prepared remarks for today's call are available in the Investor Center of our website at roberthalf.com. From the home page, click on the Investor Center link at the bottom left of the page.

Before we go over our fourth-quarter results, I would like to say a few words about Max Messmer, who transitioned to Executive Chairman at the end of last year after 33 years as CEO. Max set a very high standard in leading Robert Half to where it is today, and we are all grateful for everything he has done. Max and I have worked together over this entire time period, and I hope to continue his standard of excellence as we move forward. We are fortunate to have Max stay as Executive Chairman and remain involved in the growth and strategy of the company.

Joining me now on our quarterly calls is our newly appointed CFO, Michael Buckley. Mike is a 24-year veteran of Robert Half. Originally from public accounting, Mike has served Robert Half in various roles including Controller, Vice President of Finance and, most recently, Chief Administrative Officer. He has led the finance and accounting function at Robert Half for many years.

Now, let's review Robert Half's fourth-quarter 2019 financial results. Companywide revenues were $1.537 billion, up 4 percent from the fourth quarter of 2018 on both a reported and as-adjusted basis.

Fourth-quarter 2019 net income per share was 98 cents, compared to 95 cents in the fourth quarter one year ago. This is a 4 percent increase year over year. Cash flow from operations was $81 million in the fourth quarter, and capital expenditures were $14 million. In December, we distributed a $0.31 per share cash dividend to our shareholders of record, for a total cash outlay of $36 million.

We also repurchased approximately 1 million Robert Half shares during the quarter, for $59 million. We have 2.5 million shares available for repurchase under our board-approved stock repurchase plan.

We ended 2019 with continued strength in the U.S. job market and solid demand for our professional staffing and consulting services. We were particularly pleased with how Protiviti performed during the quarter.

Our Robert Half Technology and Robert Half Management Resources divisions also turned in solid results, largely due to ongoing talent shortages in the professional disciplines they serve.

Return on invested capital for the company was 40 percent in the fourth quarter.

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

MICHAEL BUCKLEY, CFO, ROBERT HALF:

Thank you, Keith, and hello, everyone. I am pleased to join you on the call.

Revenues

Let's start with a closer look at revenues for the fourth quarter. As Keith noted, global revenues were $1.537 billion for the quarter. This is up 4 percent from the fourth quarter one year ago on both a reported and as-adjusted basis.

On an as-adjusted basis, fourth-quarter staffing revenues were up 2 percent year over year. U.S. staffing revenues were $962 million, up 3 percent on an as-adjusted basis. Non-U.S. staffing revenues were $271 million, down 1 percent year over year on an as-adjusted basis. We have 326 staffing locations worldwide, including 87 locations in 17 countries outside the United States.

In the fourth quarter, there were 61.7 billing days, unchanged from the same quarter one year ago. The current first quarter has 63.1 billing days versus 62.2 days in the first quarter one year ago.

Currency exchange rate movements during the fourth quarter had the effect of decreasing reported year-over-year staffing revenues by $6 million. This decreased our year-over-year reported staffing revenue growth rate by one half of one percentage point.

Now let's take a look at results for Protiviti. Global revenues in the fourth quarter were $304 million: $239 million of that is from business within the United States and $65 million is from operations outside the United States. On an as-adjusted basis, global fourth quarter Protiviti revenues were up 14 percent versus the year-ago period, with U.S. Protiviti revenues up 17 percent from the prior year. Non-U.S. revenues were up 3 percent on an as-adjusted basis. Exchange rates had the effect of decreasing year-over-year Protiviti revenues by $1 million and decreasing the year-over-year reported growth rate by 0.3 percentage points. Protiviti and its independently owned Member Firms serve clients through a network of 86 locations in 27 countries.

Gross Margin

Let's take a look now at gross margin. In our temporary and consulting staffing operations, gross margin was 38.0 percent of applicable revenues in the fourth quarter, compared to 38.0 percent of applicable revenues in the fourth quarter one year ago.

Our permanent placement revenues in the fourth quarter were 10.2 percent of consolidated staffing revenues, versus 10.3 percent of consolidated staffing revenues in the fourth quarter one year ago. When combined with temporary and consulting gross margin, overall staffing gross margin decreased 10 basis points compared to the year-ago fourth quarter, to 44.3 percent.

For Protiviti, gross margin was $93 million in the fourth quarter, or 30.4 percent of Protiviti revenues. One year ago, gross margin for Protiviti was $80 million, or 30.2 percent of Protiviti revenues.

Selling, General and Administrative Costs

Companywide SG&A costs were 31.6 percent of global revenues in the fourth quarter, compared to 31.5 percent in the fourth quarter one year ago. Staffing SG&A costs were 35.2 percent of staffing revenues in the fourth quarter, versus 34.5 percent in Q4 2018. The increase in staffing SG&A as a percentage of revenue is a continuation of what we saw last quarter and is primarily the result of negative leverage from our non-U.S. staffing operations. We ended 2019 with 11,500 full-time internal staff in our staffing divisions, up 3 percent from the prior year.

Fourth-quarter SG&A costs for Protiviti were 17.1 percent of Protiviti revenues, compared to 17.3 percent of revenues in the year-ago period. We ended 2019 with 5,500 full-time Protiviti employees and contractors, up 17 percent from the prior year.

Operating Income

Companywide operating income was $153 million in the fourth quarter. Operating margin was 10 percent. Fourth-quarter operating income from our staffing divisions was $113 million, with an operating margin of 9.1 percent.

Operating income for Protiviti in the fourth quarter was $40 million, with an operating margin of 13.3 percent.

Accounts Receivable

At the end of the fourth quarter, accounts receivable was $833 million and implied days sales outstanding (DSO) was 48.7 days.

Guidance

Before we move to first-quarter guidance, let's review some of the monthly revenue trends we saw in the fourth quarter of 2019 and thus far in January 2020, all adjusted for currency and billing days.

Our temporary and consulting staffing divisions exited the fourth quarter with December revenues up 2.1 percent versus the prior year, compared to a 2.2 percent increase for the full quarter. Revenues for the first three weeks of January 2020 were up 3.2 percent compared to the same period one year ago.

Permanent placement revenues in December were down 3.7 percent compared to December of 2018. This compares to a 0.9 percent increase for the full quarter. For the first four weeks in January, permanent placement revenues were up 4 percent compared to the same period in 2019.

As Keith has noted on prior calls, we provide this information so that you have insight into some of the trends we saw during the fourth quarter and into January. 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 first-quarter guidance:

- Revenues: $1.515 billion to $1.580 billion
- Income per share: $0.90 to $0.96

The midpoint of our guidance implies year-over-year revenue growth of 4 percent on an as-adjusted basis (including Protiviti).

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, CEO, ROBERT HALF:

Thank you, Mike. As discussed at the start of the call, Protiviti had a very strong fourth quarter. Robert Half Technology and Robert Half Management Resources also performed well, largely because of intensifying labor shortages in technology disciplines and in the highly skilled accounting and finance specialties we serve.

On the last call, we talked about how the shortage of IT talent is negatively impacting companies trying to make technology enhancements, particularly in the digital space. This is also resulting in higher demand for our IT staffing solutions.

In December, the U.S. unemployment rate held at 3.5 percent. Until the last half of 2019, unemployment had not been that low in 50 years. Protracted skills shortages remain a problem for employers. The U.S. economy added 145,000 jobs in December. The Vistage CEO Confidence Index also improved in the fourth quarter, moving from 85 in the prior quarter to 91.5. Sixty-three percent of CEOs said they plan to expand their workforce in the year ahead, up 6 points from the third quarter.

Our Protiviti teams are also reporting higher demand across all of their practice areas, which run the gamut from internal audit to a wide range of business and technology consulting solutions.

The collaboration between Protiviti and our staffing operations has become a key differentiator for us. Our unique ability to provide businesses with a full spectrum of staffing and consulting solutions under one roof makes us an attractive alternative to working with multiple service providers.

Customers demand more from companies today than ever before. Our investments in technology — including enhancements to our website, personalized job and candidate recommendations, and our own mobile app — allow us to meet their changing expectations by offering more choice in how and when they work with us. These innovations, paired with the expertise of our local staffing specialists, are making it easier and faster to hire or be hired through Robert Half, whether customers engage with us online or in person.

We feel good about how the company is positioned right now. Our brand is the best recognized in the industry, supported by over $1 billion in advertising over the last 25 years. Our business model continues to focus on professional-level engagements at small and middle-market companies — attractive areas of the market. Our people are among the most driven and tenured in the industry; our senior field leaders average more than 20 years with Robert Half. Our technology tools are state of the art, and we continue to invest in digital transformation. And, finally, Protiviti is performing well not only in its traditional consulting and solutions areas, but also as it goes to market together with our staffing professionals.

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, 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.