

Q4 2014 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, 2015



FOURTH-QUARTER 2014 FINANCIAL RESULTS CONFERENCE CALL, JANUARY 29, 2015 PREPARED REMARKS

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OPERATOR:

Hello, and welcome to the Robert Half fourth-quarter 2014 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.

As is our custom at the start of our call, I'd like to remind you that comments made on this 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, but 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 statements made on today's call.

For your convenience, we now publish the prepared remarks for this conference call at the same time we issue our quarterly earnings statement. You'll find these remarks on the Robert Half website at www.roberthalf.com. Just click on the Quarterly Conference Calls link from the home page of the Investor Center.

Now, let's discuss last year's fourth quarter. Fourth-quarter 2014 revenues were \$1.22 billion, up 13 percent from the fourth quarter of 2013. Income per share was 62 cents, up 27 percent year over year. Cash flow from operations was \$83 million during the fourth quarter. Capital expenditures were \$27 million.

We paid a cash dividend of \$0.18 per share to shareholders on December 15, 2014, at a cost of \$25 million. We also repurchased 800 thousand Robert Half shares during the quarter, at a cost of \$46 million. Approximately 4.8 million shares remain available for repurchase under our board-approved stock repurchase plan.

Robert Half finished the year strongly, with broad-based revenue expansion across our staffing and consulting businesses. Fourth-quarter 2014 revenues from staffing operations increased by 14 percent compared to the prior year (adjusted for currency), making this the fifth consecutive quarter in which growth rates have accelerated.

Protiviti results also remained very strong with fourth-quarter revenues increasing 22 percent on a constant-currency basis over the same period in 2013. While revenue gains were strongest in the United States, our non-U.S. operations once again reported healthy year-over-year growth.

This was Robert Half's 19th straight quarter of double-digit net income and earnings per share percentage growth on a year-over-year basis. Unlevered return on equity remained robust at 34 percent in the fourth quarter. Earnings per share of \$2.26 for 2014 is the highest ever reported by the company.

Now, I'll turn the call over to Keith for a more detailed review of our fourth-quarter financial results.

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

REVENUES

Companywide revenues were \$1.22 billion in the fourth quarter of 2014. This is up 13 percent from the fourth quarter of 2013 on a reported basis and up 15 percent on a same-day, constant-currency basis.

Fourth-quarter global staffing revenues were up 14 percent on a same-day, constant-currency basis. U.S. staffing revenues were \$816 million in the fourth quarter, up 15 percent on a same-day basis. Non-U.S. staffing revenues were \$234 million, up 11 percent on a same-day, constant-currency basis. We have 341 staffing locations worldwide, including 99 locations in 18 countries outside the United States.

There were 61.7 billing days in the fourth quarter, compared to 61.9 days in the fourth quarter of 2013. This had the effect of decreasing reported year-over-year staffing growth rates by 0.2 percent. The current quarter has 62 billing days, compared to 62.4 days in the year-ago first quarter.

Currency exchange rates had the effect of decreasing fourth-quarter year-over-year staffing revenues by \$18 million and depressing year-over-year reported staffing growth rates by 1.9 percent.

We provide a supplemental schedule with our earnings release that shows year-over-year revenue growth rates for our various staffing lines of business on a reported basis, as well as on a same-day, constant-currency basis. The schedule further divides the data between U.S. and non-U.S. operations. You can find the schedule in today's press release and in the investor center of our website. This is a non-GAAP financial measure that provides information on certain revenue trends in our staffing operations.

Global revenues for Protiviti were \$171 million in the fourth quarter, with \$142 million in revenues in the United States and \$29 million in revenues outside the U.S. Global revenues for Protiviti were up 22 percent year over year on a same-day, constant currency basis, with U.S. revenues up 27 percent and non-U.S. revenues up 5 percent from the prior year. Protiviti and its independently owned Member Firms serve clients through a network of 74 locations in 25 countries.

Gross Margin

Gross margin in our temporary and consulting staffing operations in the fourth quarter was 36.9 percent of applicable revenues. This is up 40 basis points from the same period one year ago. The fourth quarters of 2014 and 2013 include workers' compensation and payroll-related credits of \$2.4 million and \$2.7 million, respectively.

Fourth-quarter revenues for our permanent placement operations were 9.2 percent of overall staffing revenues, compared to 9.1 percent of staffing revenues in the fourth quarter of 2013. Together with temporary and consulting gross margin, overall staffing gross margin expanded by 40 basis points versus one year ago, to 42.7 percent.

Fourth-quarter gross margin for Protiviti was \$53 million, or 30.7 percent of Protiviti revenues, compared to \$45 million, or 31.8 percent of Protiviti revenues, one year ago.

Selling, General and Administrative Costs

Staffing SG&A costs were 32.0 percent of staffing revenues in the fourth quarter versus 33.0 percent in last year's fourth quarter. We ended 2014 with 11,200 full-time employees in our staffing divisions, up 9 percent from the prior year.

SG&A costs for Protiviti were 18.3 percent of Protiviti revenues in the fourth quarter compared to 20.1 percent of Protiviti revenues reported this time last year. We ended 2014 with 3,300 full-time Protiviti employees and contractors, up 5 percent from the prior year.

Operating Income

Operating income from our staffing divisions was \$112 million in the fourth quarter, growing 28 percent over the prior year and resulting in an operating margin of 10.7 percent. Our temporary and consulting divisions reported \$95 million in operating income, an increase of 26 percent over the prior year. This resulted in an operating margin of 9.9 percent.

Operating income for our permanent placement division was \$17 million in the fourth quarter, up 36 percent from the prior year and producing an operating margin of 17.8 percent.

Fourth-quarter operating profit for Protiviti was \$21 million, an increase of 29 percent from the prior year and producing an operating margin of 12.4 percent.

Our fourth-quarter 2014 income tax rate increased to 37.0 percent, up from 35.6 percent in last year's fourth quarter. This was due primarily to fewer available foreign tax benefits.

Accounts Receivable

At the end of the fourth quarter, accounts receivable were \$658 million. Implied days sales outstanding (DSO) was 49.0 days.

Guidance

Before we move to first-quarter guidance, let's review the monthly trends we saw as we moved through the fourth quarter of 2014 — and so far in January:

- In the U.S., year-over-year growth rates for our temporary and consulting divisions were flat in October and November, and then accelerated in December.
- Also in the U.S., year-over-year growth rates for our permanent placement divisions decelerated in October, accelerated in November, and then decelerated in December.
- Outside the U.S., year-over-year temporary and consulting staffing growth rates were flat in October, accelerated in November, and decelerated in December. Permanent placement growth rates outside the U.S. decelerated in October, accelerated in November, and then decelerated in December.
- For the first two weeks of January, revenues for our temporary and consulting operations were up 17 percent on a same-day, constant-currency basis compared to the same period last year, with U.S. temporary and consulting revenues up 19 percent and non-U.S. temporary and consulting revenues up 11 percent.
- For the first three weeks of January, permanent placement revenues were up 19 percent on a same-day, constant-currency basis compared to the same period last year, with U.S. perm revenues up 26 percent and non-U.S. perm revenues up 2 percent. We provide this information with the caveat that it is difficult to read a great deal into these trends given the short time periods they represent.

The higher 2015 post-quarter growth rates just noted include a benefit from the absence of the harsh weather conditions experienced last year. We estimate this increased our year-over-year growth rates by approximately 2 percentage points.

We offer the following first-quarter guidance:

- Revenues: \$1 billion, 195 million to \$1 billion, 245 million
- Income per share: \$0.53 to \$0.58

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 previously noted, we saw healthy demand across the board for our staffing and consulting services in the fourth quarter. Revenue growth was broad-based and extended to both our U.S. and non-U.S. operations.

The U.S. labor market has strengthened in recent months, and skills shortages persist in professional disciplines such as accounting and information technology. We are seeing similar trends outside the United States, although growth has been less robust. Employers in the United States added nearly 3 million jobs over the course of 2014, making it the best year for job growth since 1999.

Secular trends continue to shape the demand for interim talent. More and more companies are using temporary and consulting professionals as a permanent part of their human resources mix. In the United States alone, nearly 3 million people work on a temporary basis each day. The number of temporary workers as a percentage of the total U.S. workforce is at an all-time high right now.

We remain bullish about Protiviti as well. As Keith noted, global revenues for Protiviti were up 22 percent in the fourth quarter. Protiviti has a stellar reputation in the marketplace, and we are very pleased with how this business is performing. Protiviti's service lines include information technology consulting, risk and compliance, and internal audit, among others.

Looking at our business operations as a whole, we are optimistic. We believe Robert Half is well positioned to benefit in the current macro-environment. We are making investments in people and infrastructure to support business expansion, and we are extremely confident in the ability of our field and corporate leadership teams to grow the business.

At this time, we will be happy to answer questions. We would request that you please limit yourself to one question and a single follow-up, as needed. If time permits, we will try to return to you later in the call if you have additional questions.

(After the last question is answered the Operator will turn the call over to Max.)

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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