Q3 2019
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, 2019

Robert Half®

THIRD-QUARTER 2019 FINANCIAL RESULTS CONFERENCE CALL, OCTOBER 23, 2019 PREPARED REMARKS

OPERATOR:

Hello, and welcome to the Robert Half third-quarter 2019 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 today's call.

As a reminder, the 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 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, 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.

Now let's review Robert Half's third-quarter financial results. Revenues for the company were $1.552 billion, up 6 percent from last year's third quarter on a reported basis, and up 5 percent on a same-day, constant-currency basis.

Third-quarter net income per share was $1.01 versus 95 cents in the same period one year-ago. This is a 7 percent increase year over year.

Cash flow from operations was $191 million in the third quarter, and capital expenditures were $17 million. In September, 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 1.5 million Robert Half shares during the quarter for $80 million. We have 3.4 million shares available for repurchase under our board-approved stock repurchase plan.

Persistent talent shortages resulted in continued strong demand for our staffing services in the third quarter, particularly in the United States. Robert Half Management Resources was the standout among our staffing lines of business, and our Protiviti subsidiary also had a very strong quarter. We are pleased with the continued momentum we are seeing in our U.S. staffing and Protiviti operations.

Return on invested capital for the company was 42 percent in the third quarter.

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

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

Revenues

Thank you, Max. As just noted, global revenues in the third quarter were $1.552 billion. This is up 6 percent from the prior year's third quarter on a reported basis, and up 5 percent on a same-day, constant-currency basis from the year-ago period.

Accompanying our earnings release today 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.

On an as-adjusted basis, third-quarter staffing revenues were up 3 percent year over year. U.S. staffing revenues were $973 million, up 5 percent on an as-adjusted basis. Non-U.S. staffing revenues were $280 million, down 0.3 percent year-over-year on an as-adjusted basis. We have 325 staffing locations worldwide, including 86 locations in 17 countries outside the United States.

There were 64.1 billing days in the third quarter versus 63.3 days in the same quarter one year ago. The current fourth quarter has 61.7 billing days, equivalent to the fourth quarter one year ago.

Currency exchange rate movements during the quarter had the effect of decreasing reported year-over-year staffing revenues by $11 million. This reduced our year-over-year reported staffing revenue growth rate by 0.9 percentage points.

Now let's take a look at results for Protiviti. Global revenues in the third quarter were $299 million: $235 million of that is from the United States and $64 million is from operations outside the United States. On an as-adjusted basis, Protiviti global revenues were up 15 percent versus the year ago period.

On an as-adjusted basis, U.S. Protiviti revenues in the third quarter were up 16 percent from the prior year. Non-U.S. revenues were up 9 percent on an as-adjusted basis. Exchange rates had the effect of decreasing year-over-year Protiviti revenues by $2 million and decreasing the year-over-year reported growth rate by 0.8 percentage points. Protiviti and its independently owned Member Firms serve clients through a network of 86 locations in 27 countries.

Gross Margin

Now let's turn to gross margin. In our temporary and consulting staffing operations, 3Q gross margin was 37.9 percent of applicable revenues, compared to 37.8 percent of applicable revenues in the third quarter one year ago.

In our permanent placement business, revenues were 10.7 percent of consolidated staffing revenues in the third quarter of 2019, which is flat compared to last year's third quarter. When combined with temporary and consulting gross margin, overall staffing gross margin rose 10 basis points compared to the year-ago third quarter, to 44.6 percent.

Protiviti gross margin was $88 million in the third quarter, or 29.5 percent of Protiviti revenues. One year ago, gross margin for Protiviti was $71 million, or 28.1 percent of Protiviti revenues.

Selling, General and Administrative Costs

Staffing SG&A costs were 34.7 percent of staffing revenues in the third quarter, compared to 34.1 percent in last year's third quarter.

SG&A costs for Protiviti in the third quarter were 16.2 percent of Protiviti revenues versus 18.0 percent of revenues in the year-ago period.

Operating Income

Third-quarter operating income from our staffing divisions was $123 million. Operating margin was 9.8 percent. Of this amount, our temporary and consulting staffing divisions reported $101 million in operating income and produced an operating margin of 9.1 percent, while our permanent placement division reported operating income of $22 million and produced an operating margin of 16.2 percent.

Third quarter operating profit for Protiviti was $40 million, resulting in an operating margin of 13.3 percent.

Accounts Receivable

Accounts receivable were $853 million at the end of the third quarter, and implied days sales outstanding (DSO) was 49.3 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 2019 and thus far in October, all adjusted for currency and billing days.

Our temporary and consulting staffing divisions exited the third quarter with September revenues up 2.8 percent versus the prior year, compared to a 3.4 percent increase for the full quarter. Revenues for the first two weeks of October were up 4 percent compared to the same period in October one year ago (when revenues were up 9 percent).

Permanent placement revenues in September were up 0.5 percent compared to September of 2018. This compares to a 3.4 percent increase for the full quarter. For the first three weeks in October, permanent placement revenues were essentially flat compared to the same period last year (when revenues were up 20 percent).

We provide this information so that you have insight into some of the trends we saw during the third quarter and into October. 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 fourth-quarter guidance:

- Revenues: $1 billion, 500 to 565 million
- Income per share: $0.94 to $1.00

The midpoint of our guidance implies year-over-year revenue growth of 4 percent on a same-day, as-adjusted basis (including Protiviti) and EPS growth of 2 percent. The projected tax rate is 28 percent compared to 27 percent a year ago.

Compared sequentially to the third quarter just ended, the midpoint of our guidance implies negative revenue and EPS growth of 1 percent and 4 percent, respectively. This differs from typical seasonal trends due to the loss of an extra billing day between the third and fourth quarters of 2019 and 2018. In 2019, we lose 2.4 days sequentially whereas in 2018 we lost only 1.6 days between quarters.

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 were pleased with the company's third-quarter results and encouraged by the continued momentum we're seeing in our U.S. staffing and consulting operations. As we noted earlier, Protiviti had a particularly strong quarter. Demand for Protiviti's services was broad-based across all of its consulting and internal audit solutions, including its managed solutions offerings provided jointly with our staffing operations.

Our staffing operations are benefitting from the strong labor market, particularly in the United States. In September, the U.S. unemployment rate fell to 3.5 percent. The last time the rate was this low was in December 1969.

Staffing challenges are particularly acute for companies that are making technology investments. The skills required for digital transformation projects are in short supply, which is fueling higher demand for specialized staffing services like ours.

We believe global labor shortages are going to have a durable impact on hiring demand. The Vistage CEO Confidence Index showed a decline in overall confidence among CEOs of small and midsize businesses in September, yet nearly 60 percent of these CEOs plan to hire in the year ahead, a four-point increase from the prior month. While many of the various business confidence indexes are off their historic highs, they remain at strong absolute levels.

We're focused on technology investments within Robert Half, as we have talked about on this call. Whether customers engage with us online or in person, we can provide a seamless experience supported by technology and the expertise of our local staffing experts. That's a unique combination and a key differentiator for Robert Half.

We also see the blended solutions offered by our staffing and Protiviti operations as an important differentiator. Protiviti's 2019 Global Finance Trends Survey found that managed solutions models, where major projects are handled by a blend of full-time staff, contract professionals and third-party experts, are gaining in popularity as an alternative to traditional outsourcing arrangements. We are uniquely qualified to provide these diverse staffing and consulting solutions all under one roof.

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.

Robert Half®