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Financial Results Conference Call

Prepared Remarks From:

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OPERATOR:

Introduction

M. Keith Waddell, President and CEO, Robert Half:

Hello, everyone. We appreciate your time today.

Before we get started, 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 further 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, roberthalf.com.

We delivered above-consensus top- and bottom-line results for the fourth quarter, with Protiviti leading the way. Global labor demand continues to be resilient, and talent shortages persist, although both are modestly below their peaks. Ongoing economic uncertainty continues to impact client and candidate confidence, as well as hiring activity and new project starts. Nevertheless, we are encouraged that our improving weekly revenue trends that began in the third quarter and continued into the fourth quarter are approaching a positive inflection point.

We enter 2024 confident in our ability to navigate the current climate and optimistic about our growth prospects, built on our industry-leading brand, people, technology and unique business model that includes both professional staffing and business consulting services.

For the fourth quarter of 2023, companywide revenues were $1.473 billion, down 15 percent from last year's fourth quarter on both a reported and as adjusted basis.

Net income per share in the fourth quarter was $0.83, compared to $1.37 in the fourth quarter one year ago.

Cash flow from operations during the quarter was $115 million. In December, we distributed a 48 cent per-share cash dividend to our shareholders of record, for a total cash outlay of $51 million. Our per-share dividend has grown 11.2 percent annually since its inception in 2004. The December 2023 dividend was 11.6 percent higher than the prior year. We also acquired approximately 685 thousand Robert Half shares during the quarter for $56 million. We have 10.8 million shares available for repurchase under our board-approved stock repurchase plan.

Return on invested capital for the Company was 22 percent in the fourth quarter.

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

Michael C. Buckley, CFO, Robert Half:

Thank you, Keith. Hello, everyone.

As Keith noted, global revenues were $1.473 billion in the fourth quarter.

On an as adjusted basis, fourth-quarter talent solutions revenues were down 18 percent year over year. U.S. talent solutions revenues were $764 million, down 21 percent from the prior year's fourth quarter. Non-U.S. talent solutions revenues were $245 million, down 10 percent year over year. We have 313 talent solutions locations worldwide, including 89 locations in 18 countries outside the United States.

In the fourth quarter, there were 61.1 billing days, compared to 61.2 billing days in the same quarter one year ago. The first quarter of 2024 has 62.8 billing days, compared to 63.3 billing days during the first quarter of 2023. Billing days for the remaining three quarters of 2024 will be 63.5, 64.1 and 61.6 for a total of 252.0 billing days in the year.

Currency exchange rate fluctuations during the fourth quarter had the effect of increasing reported year-over-year total revenues by $11 million — $8 million for talent solutions and $3 million for Protiviti.

Contract talent solutions bill rates for the fourth quarter increased 3.7 percent compared to one year ago, adjusted for changes in the mix of revenues by functional specialization, currency and country. This rate for the third quarter was 4.6 percent.

Now let's take a closer look at results for Protiviti. Global revenues in the fourth quarter were $464 million: $372 million of that is from the United States, and $92 million is from outside the United States. On an as adjusted basis, global fourth-quarter Protiviti revenues were down 8 percent versus the year-ago period. U.S. Protiviti revenues were down 7 percent, while non-U.S. Protiviti revenues were down 9 percent. Protiviti and its independently owned Member Firms serve clients through a network of 89 locations in 29 countries.

Gross Margin

Turning now to gross margin: In contract talent solutions, fourth-quarter gross margin was 39.7 percent of applicable revenues, versus 39.9 percent in the fourth quarter one year ago. Conversion revenues (or contract-to-hire) were 3.4 percent of revenues in the quarter, compared to 3.7 percent of revenues in the quarter one year ago.

Our permanent placement revenues in the fourth quarter were 12.0 percent of consolidated talent solutions revenues, versus 12.7 percent in the same quarter one year ago. When combined with contract talent solutions gross margin, overall gross margin for talent solutions was 46.9 percent, compared to 47.5 percent of applicable revenues in the fourth quarter last year.

For Protiviti, gross margin was 23.9 percent of Protiviti revenues, compared to 27.2 percent of Protiviti revenues one year ago. Adjusted for deferred compensation-related classification impacts, gross margin for Protiviti was 25.9 percent for the quarter just ended, compared to 28.0 percent last year. We ended 2023 with 10,500 full-time Protiviti employees and contractors, down 9.6 percent from the prior year.

Selling, General and Administrative Costs

Enterprise SG&A costs were 35.1 percent of global revenues in the fourth quarter, compared to 31.6 percent in the same quarter one year ago. Adjusted for deferred compensation-related classification impacts, enterprise SG&A costs were 32.5 percent for the quarter just ended, compared to 30.4 percent last year.

Talent solutions SG&A costs were 44.6 percent of talent solutions revenues in the fourth quarter, versus 38.9 percent in the fourth quarter of 2022. Adjusted for deferred compensation-related classification impacts, talent solutions SG&A costs were 40.8 percent for the quarter just ended, compared to 37.2 percent last year.

The lower mix of permanent placement revenues this quarter versus one year ago had the effect of decreasing the quarter's adjusted SG&A ratio by 0.4 percentage points. We ended 2023 with 8,000 full-time internal employees in our talent solutions divisions, down 13.8 percent from the prior year.

Fourth-quarter SG&A costs for Protiviti were 14.5 percent of Protiviti revenues, compared to 13.6 percent of revenues last year.

Segment Income

Operating income for the quarter was $67 million. Adjusted for deferred compensation-related classification impacts, combined segment income was $114 million in the fourth quarter. Combined segment margin was 7.8 percent. Fourth-quarter segment income from our talent solutions divisions was $61 million, with a segment margin of 6.1 percent. Segment income for Protiviti in the fourth quarter was $53 million, with a segment margin of 11.4 percent.

Tax Rate

Our fourth-quarter tax rate was 27 percent, the same as one year ago.

Accounts Receivable

At the end of the fourth quarter, accounts receivable were $861 million, and implied days sales outstanding (DSO) was 52.6 days.

Guidance

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

Contract talent solutions exited the fourth quarter with December revenues down 17 percent versus the prior year, compared to an 18 percent decrease for the full quarter. Revenues for the first three weeks of January were down 17 percent compared to the same period last year. On a week-on-week sequential basis, the rates of decline continued to narrow during the quarter, a pattern that began last quarter.

Permanent placement revenues in December were down 22 percent versus December 2022. This compares to a 23 percent decrease for the full quarter. For the first four weeks in January, permanent placement revenues were down 25 percent compared to the same period in 2023.

We provide this information so 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: $1.440 billion to $1.540 billion
- Income per share: $0.54 to $0.68

Guidance Assumptions

Midpoint revenues of $1.490 billion are 13 percent lower than the same period in 2023 on an as adjusted basis.

The major financial assumptions underlying the midpoint of these estimates are as follows:

Revenue growth, year-over-year, as adjusted:				
Talent solutions:	Down	14%	to	19%
Protiviti:	Down	3%	to	6%
Overall:	Down	10%	to	15%
Gross margin percentage:				
Contract talent:		38%	to	41%
Protiviti:		20%	to	22%
Overall:		37%	to	39%
SG&A as percent of revenues, excluding deferred compensation classification impacts:				
Talent solutions:		40%	to	42%
Protiviti:		15%	to	17%
Overall:		32%	to	34%
Segment income:				
Talent solutions:		4%	to	7%
Protiviti:		4%	to	7%
Overall:		4%	to	7%
Tax Rate:		29%	to	30%
Shares:			104 to 105 million	

2024 capital expenditures and capitalized cloud computing costs: $90 million to $110 million, with $15 to $20 million in the first quarter.

Protiviti's first quarter segment income guidance includes the seasonal impact of annual staff promotions and compensation increases, all of which became fully effective on January 1. This produces a sequential decline in midpoint estimated segment margin of 6 percentage points, which is consistent with the 4-7 point decline experienced in most of the last 10 years.

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, President and CEO, Robert Half:

Thank you, Mike.

While job-opening demand continues to be above historical levels and candidate supply remains tight, the velocity of hiring remains impacted and there is less churn in the labor force. The Great Resignation following Covid has given way to the Big Stay, and employee attrition is down significantly across the globe. That said, the tone of client discussions has improved in the last 90 days due to some combination of lower inflation, a more favorable interest rate policy, fewer predictions of pending recession and newly approved staffing levels resulting from the annual budget cycle. These factors contribute to a more positive backdrop heading into 2024 than we saw a year ago.

We're optimistic about our opportunities for the year ahead, starting with the reacceleration in the velocity of hiring and the more normalized labor churn that typically follows when client and candidate confidence improve. We are also encouraged by the growth and margin prospects from our continued focus on services related to higher-skilled talent, both in talent solutions and Protiviti. Our investments in higher-skilled services carry many advantages — higher bill rates and gross margins, longer assignment lengths, increased client openness to remote talent, more full-time engagement professionals, and less economic sensitivity. This investment has already provided significant benefit in the current cycle, as our cumulative sequential revenue declines during the last six quarters are about half of what they were compared to peak-to-trough declines of the dot-com and financial crisis downturns. We expect this positive mix shift to continue.

We continue to invest in technology and innovation, including AI. Major focus areas include providing a world-class digital experience for our clients and candidates that is seamlessly connected to our specialized professional recruiters. Also, we continue to leverage our proprietary data assets to enhance the AI tools our recruiters use to discover, assess and select talent for our clients, and the AI tools our recruiters use to effectively target leads for additional revenue.

We are pleased with Protiviti's results for the quarter, led again by the regulatory risk and compliance practice. Other solutions areas were again modestly impacted by client budget measures. Protiviti's pipeline continues to grow, although economic conditions continue to impact the average deal size and the time it takes to close contracts and begin new engagements. Protiviti continues to compete very effectively in the marketplace, benefiting from its focused and nimble solutions offerings and its differentiated breadth and depth of resources including priority access to scalable contract talent at all skill levels though our talent solutions practices. Protiviti now represents 34 percent of our annual segment income, which is expected to increase as it expands its small but growing market share in the growing global consulting industry.

We have weathered many economic cycles in the past, each time emerging to achieve higher peaks. Aging workforce demographics and clients' desire for flexible resources and variable costs are structural tailwinds that are expected to continue for many years to come.

We begin the new year energized by our time-tested corporate purpose — to connect people to meaningful and exciting work and provide clients with the talent and consulting expertise they need to confidently compete and grow.

We'd also like to thank our people across the globe, whose commitment to success made possible a number of new accolades in 2023. Fourth-quarter recognition included being named one of the Best Workplaces for Parents™ by Great Place to Work®, one of America's Most Responsible Companies by Newsweek, and a Best-Managed Company of 2023 by The Wall Street Journal.

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, PRESIDENT AND CEO, ROBERT HALF:

That was our last question. Thank you 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 roberthalf.com. You also can dial the conference call replay. Dial-in details and the confirmation code are contained in the Company's press release issued earlier today.