Q2 2022
CONFERENCE CALL

Prepared Remarks From:
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Robert Half®

SECOND-QUARTER 2022 FINANCIAL RESULTS CONFERENCE CALL, PREPARED REMARKS JULY 21, 2022

OPERATOR:

Hello, and welcome to the Robert Half second-quarter 2022 conference call. Our hosts for today's call are Mr. Keith Waddell, president and chief executive officer of Robert Half, and Mr. Michael Buckley, chief financial officer. Mr. Waddell, you may begin.

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.

We would like to remind you that beginning in 2022 our financial disclosures for contract operations (formerly temporary and consultant staffing) are based on functional specialization rather than our previously branded divisions. The functional specializations are:

- Finance and accounting,
- Administrative and customer support, and
- Technology.

Finance and accounting combines the former Accountemps and Management Resources. Administrative and customer support was previously OfficeTeam, and technology was formerly Robert Half Technology. Protiviti and our permanent placement operations continue to be reported separately. Also, what we previously referred to as staffing operations are now referred to as talent solutions. There is no change to our underlying business operations or organization.

Our presentation of revenues and the related growth rates for each of our contract functional specializations includes intersegment revenues from services provided to Protiviti in connection with the Company's blended talent solutions and consulting operations. This is how we measure and manage these businesses internally. The combined amount of intersegment revenues with Protiviti is also separately disclosed. The supplemental schedules just mentioned also include a revenue schedule showing this information for 2020 through 2022.

For your convenience, our prepared remarks for today's call are available in the Investor Center of our website, www.roberthalf.com.

We are pleased to once again report very strong results, which continue to reflect a robust global labor market and demand environment. Talent solutions led the way with permanent placement and contract talent solutions growing 39 percent and 19 percent, respectively, on a year-over-year basis. Core Protiviti solutions also remained strong.

I would like to acknowledge the dedication and exemplary efforts of our entire global workforce, including talent solutions, Protiviti and corporate services professionals, who make our success possible.

Companywide revenues were $1.863 billion in the second quarter of 2022, up 18 percent from last year's second quarter on a reported basis, and up 20 percent on an as adjusted basis.

Net income per share in the second quarter was $1.60, increasing 20 percent compared to $1.33 in the second quarter one year ago.

Cash flow from operations during the quarter was $233 million. In June, we distributed a 43 cent per-share cash dividend to our shareholders of record, for a total cash outlay of $49 million. Our per share dividend has grown 11.6 percent annually since inception in 2004. The June 2022 dividend was 13.2 percent higher than in 2021. We also acquired approximately 900 thousand Robert Half shares during the quarter, for $79 million. We have 5.8 million shares available for repurchase under our board-approved stock repurchase plan.

Return on invested capital for the Company was 48 percent in the second quarter.

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

MICHAEL C. BUCKLEY, CFO, ROBERT HALF:

Revenues
Thank you, Keith. Hello, everyone.

As Keith noted, global revenues were $1.863 billion in the second quarter.

On an as adjusted basis, second-quarter talent solutions revenues were up 24 percent year-over-year. U.S. talent solutions revenues were $1.071 billion, up 25 percent from the prior year. Non-U.S. talent solutions revenues were $295 million, up 20 percent year-over-year on an as adjusted basis. We have 316 talent solutions locations worldwide, including 85 locations in 17 countries outside the United States.

In the second quarter, there were 63.4 billing days, unchanged from the same quarter one year ago. The current third quarter has 64.3 billing days, compared to 64.4 billing days one year ago.

Currency exchange rate movements during the second quarter had the effect of decreasing reported year-over-year total revenues by $37 million — $26 million for talent solutions and $11 million for Protiviti. This negatively impacted our year-over-year overall revenue growth rate by 2.3 percentage points — 2.3 percentage points for talent solutions and 2.4 percentage points for Protiviti.

Contract talent solutions bill rates for the quarter increased 8.2 percent compared to one year ago, adjusted for changes in the mix of revenues by functional specialization, currency and country. This rate for Q1 2022 was 9.1 percent.

Now let's take a closer look at results for Protiviti. Global revenues in the second quarter were $497 million: $396 million of that is from business within the United States, and $101 million is from operations outside the United States. On an as adjusted basis, global second-quarter Protiviti revenues were up 11 percent versus the year-ago period, with U.S. Protiviti revenues up 8 percent. Non-U.S. revenues were up 21 percent on an as adjusted basis. Protiviti and its independently owned Member Firms serve clients through a network of 88 locations in 29 countries.

Companywide second-quarter public sector revenues were $94 million, of which $70 million was reported by Protiviti and the balance reported by talent solutions. Currency exchange rates had the effect of decreasing year-over-year public sector revenues by $4 million. We expect third-quarter 2022 public sector revenues to be $90 to $100 million, and we continue to expect full-year 2022 public sector revenues to be flat to up 10 percent for the year.

Gross Margin
Turning now to gross margin: In contract talent solutions, second-quarter gross margin was 39.9 percent of applicable revenues, compared to 39.7 percent of applicable revenues in the second quarter one year ago. Conversion revenues (or contract-to-hire) were 4.1 percent of revenues in the quarter.

Our permanent placement talent solutions revenues in the second quarter were 14.7 percent of consolidated talent solutions revenues, versus 12.8 percent of consolidated talent solutions revenues in the same quarter one year ago. When combined with contract talent solutions gross margin, overall talent solutions gross margin was 48.7 percent, an increase of 1.3 percentage points compared to the year-ago second quarter.

For Protiviti, gross margin was 30.4 percent of Protiviti revenues, compared to 29.1 percent of Protiviti revenues one year ago. Adjusted for deferred-compensation-related classification impacts, gross margin for Protiviti was 28.1 percent for the quarter just ended, compared to 30.0 percent one year ago. Gross margin in the current period was impacted by higher staff resource costs, including continued expansion of headcount in the quarter.

Selling, General and Administrative Costs
Enterprise SG&A costs were 27.3 percent of global revenues in the second quarter, compared to 30.9 percent in the same quarter one year ago. Adjusted for deferred-compensation-related classification impacts, enterprise SG&A costs were 30.3 percent for the quarter just ended, compared to 29.4 percent one year ago.

Talent solutions SG&A costs were 32.2 percent of talent solutions revenues in the second quarter, versus 38.4 percent in the second quarter of 2021. Adjusted for deferred-compensation-related classification impacts, talent solutions SG&A costs were 36.2 percent for the quarter just ended, compared to 36.3 percent one year ago. The higher mix of permanent placement revenues this quarter versus one year ago had the effect of adding 0.9 percentage points to the quarter's adjusted SG&A ratio.

Second-quarter SG&A costs for Protiviti were 14.0 percent of Protiviti revenues, compared to 12.5 percent of revenues in the year-ago period.

Segment Income
Operating income for the quarter was $306 million. Adjusted for deferred-compensation-related classification impacts, combined segment income was $241 million in the second quarter. Combined segment margin was 12.9 percent. Second-quarter segment income from our talent solutions divisions was $171 million, with a segment margin of 12.5 percent. Segment income for Protiviti in the second quarter was $70 million, with a segment margin of 14.1 percent.

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

Accounts Receivable
At the end of the second quarter, accounts receivable was $1.092 billion, and implied days sales outstanding (DSO) was 52.6 days.

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

Contract talent solutions exited the second quarter with June revenues up 18 percent versus the prior year, compared to a 21 percent increase for the full quarter. Revenues for the first week of July were up 16 percent compared to the same period one year ago.

Permanent placement revenues in June were up 38 percent versus June of 2021. This compares to a 43 percent increase for the full quarter. For the first two weeks in July, permanent placement revenues were up 3 percent compared to the same period in 2021. This period includes the historically variable impact of the 4th of July holiday.

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

- Revenues: $1.870 billion to $1.950 billion
- Income per share: $1.60 to $1.70

Guidance Assumptions
Midpoint revenues of $1.910 billion are 14 percent higher than the same period in 2021 on an as adjusted basis. Midpoint EPS of $1.65 is 8 percent higher than 2021, notwithstanding a 5 cent negative impact for currency and a higher tax rate. Note that in the prior year, Q3 2021 revenues and EPS had very strong year-over-year growth rates of 43 percent and 129 percent, respectively.

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

Revenue growth, year-over-year:				
Talent solutions:	Up	16%	to	19%
Protiviti:	Up	6%	to	9%
Overall:	Up	12%	to	16%
Gross margin percentage:				
Contract talent:		38%	to	40%
Protiviti:		28%	to	30%
Overall:		42%	to	44%
SG&A as percent of revenues, excluding deferred-compensation classification impacts:				
Talent solutions:		36%	to	37%
Protiviti:		14%	to	16%
Overall:		30%	to	32%
Segment income:				
Talent solutions:		11%	to	13%
Protiviti:		13%	to	15%
Overall:		11%	to	13%
Tax Rate:		26%	to	27%
Shares:		108 to 110 million		

Third-quarter capital expenditures and capitalized cloud computing costs: $25 to $30 million.

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.

Global labor markets remain strong. In the United States, job openings and quit rates remain elevated and only modestly below all-time highs. The unemployment rate continues to hold near a record low — particularly for those with a college degree, where the rate is 2.1%. For small businesses, the National Federation of Independent Business, NFIB, recently reported that 94 percent of those hiring or trying to hire had few or no qualified applicants for open positions, and 50 percent of small business owners had job openings that could not be filled.

Remote and hybrid working models are here to stay and provide us with a significant opportunity to capitalize on the structural shift in how companies source talent. This plays to our numerous strengths, including our global brand, office network, candidate database and advanced AI-driven technologies.

The demand environment remains strong on a broad basis, spanning industries, company size, skill level and geographies. We continue to see our talent solutions results recovering at a faster pace than we've experienced in the past. Our permanent placement and contract talent solutions segments, including blended solutions with Protiviti, have achieved cumulative sequential growth of 180 percent and 63 percent, respectively, during the eight quarters since the pandemic trough. Similar numbers for the financial crisis and dot-com recoveries were 78 percent and 36 percent, and 121 percent and 47 percent, respectively.

Protiviti reported double-digit year-on-year adjusted revenue growth notwithstanding the previously disclosed and expected wind-down of a very large financial services regulatory remediation project and the anticipated moderation in stimulus-related public sector revenues. Internal audit and technology consulting solutions led the way. Protiviti's pipeline remains strong across each of its solution areas, particularly internal audit as clients struggle to internally staff the rising demands of this function.

We continue to be optimistic about our growth prospects for the remainder of 2022, propelled by the strength of our people, our technology, our brand and our business model. We remain steadfast in our focus on our purpose, to connect people to meaningful work and provide clients with the talent and subject matter expertise they need to confidently compete and grow.

Finally, we'd like to thank our people — who are our greatest asset and what differentiates us in the marketplace — for the significant company recognition received this quarter. We are proud to have been recently ranked number one by Forbes on three prestigious lists — America's Best Professional Recruiting Firms, America's Best Temporary Staffing Firms and America's Best Executive Recruiting Firms. This is the first time any company has placed first in all three categories. This is a credit to all of our employees and their incredible drive to deliver outstanding service to our clients and candidates.

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 www.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.

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