Q3 2020 CONFERENCE CALL

Prepared Remarks From:
M. Keith Waddell, President and Chief Executive Officer, Robert Half International
Michael C. Buckley, Chief Financial Officer, Robert Half International

October 22, 2020

Robert Half®

THIRD-QUARTER 2020 FINANCIAL RESULTS CONFERENCE CALL, PREPARED REMARKS OCTOBER 22, 2020

OPERATOR:

Hello, and welcome to the Robert Half third-quarter 2020 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.

In addition, we have modified our presentation of revenues and the related growth rates for Accountemps, OfficeTeam, Robert Half Technology and Robert Half Management Resources to include their intersegment revenues from services provided to Protiviti in connection with the Company's blended staffing and consulting solutions. This is how we measure and manage these divisions internally and, from now on, it is how we will report them externally. The combined amount of divisional intersegment revenues with Protiviti is also separately disclosed.

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

We are very pleased that third quarter and early October results reflect consistent weekly and monthly sequential gains across our divisions. Protiviti had another outstanding quarter, reporting its 12th consecutive quarter of year-on-year revenue gains, leveraging a strong pipeline of diversified services offerings, including particularly robust growth from the blended solutions with our staffing operations. We were also pleased with the quarter-on-quarter growth in our staffing divisions, led by our permanent placement and OfficeTeam divisions.

2020 continues to be an unprecedented year. I am extremely proud of the resourcefulness and commitment exhibited by all of our employees as we maintain high levels of service to our clients and candidates.

Companywide revenues were $1.190 billion in the third quarter of 2020, down 23 percent from last year's third quarter on a reported basis, and down 24 percent on an as-adjusted basis.

Net income per share in the third quarter was 67 cents, compared to $1.01 in the third quarter one year ago.

Cash flow from operations during the quarter was $139 million, and capital expenditures were $7 million. In September, we distributed a $.34 per share cash dividend to our shareholders of record, for a total cash outlay of $38 million. We also acquired approximately 450,000 Robert Half shares during the quarter, for $24 million. We have 1.0 million shares available for repurchase under our board-approved stock repurchase plan.

Return on invested capital for the Company was 25.8 percent in the third 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.

Let's start with revenues. As Keith noted, global revenues were $1.190 billion in the third quarter. This is a decrease of 23 percent from the third quarter one year ago on a reported basis and a decrease of 24 percent on an as-adjusted basis.

On an as-adjusted basis, third-quarter staffing revenues were down 31 percent year over year. U.S. staffing revenues were $666 million, down 32 percent from the prior year. Non-U.S. staffing revenues were $203 million, down 29 percent year over year on an as-adjusted basis. We have 326 staffing locations worldwide, including 88 locations in 17 countries outside the United States.

In the third quarter, there were 64.3 billing days, compared to 64.1 billing days in the third 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 third quarter had the effect of increasing reported year-over-year staffing revenues by $4 million. This increased our year-over-year reported staffing revenue growth rate by 0.3 percentage points.

Now, let's take a closer look at results for Protiviti. Global revenues in the third quarter were $321 million: $260 million of that is from business within the United States, and $61 million is from operations outside the United States. On an as-adjusted basis, global third-quarter Protiviti revenues were up 6 percent versus the year-ago period, with U.S. Protiviti revenues up 10 percent. Non-U.S. revenues were down 8 percent on an as-adjusted basis. Exchange rates had the effect of increasing year-over-year Protiviti revenues by $2 million and increasing its year-over-year reported growth rate by 0.7 percentage points. Protiviti and its independently owned Member Firms serve clients through a network of 86 locations in 28 countries.

Change in SG&A Presentation

During the quarter, we changed our presentation of SG&A expenses to exclude gains and losses on investments held to fund our obligations under employee deferred compensation plans. Under these plans, employees direct the investment of their account balances, and the Company makes cash deposits into an investment trust consistent with these directions. As realized and unrealized investment gains and losses occur, the Company's deferred compensation obligation to employees changes accordingly. However, the value of the related investment trust assets also changes by an equal and offsetting amount, leaving no net cost to the Company. Going forward, changes in the Company's deferred compensation obligations noted above will continue to be included in SG&A or, in the case of Protiviti, direct cost. However, the offsetting changes in the investment trust assets will be presented separately below SG&A and outside of operating income. This does not change the reported level of pre-tax or after-tax income or cash flow previously provided. Going forward, we will replace the discussion of consolidated operating income with the non-GAAP measure of combined segment income. This will be calculated as consolidated income before income taxes adjusted for interest income and amortization of intangible assets.

Gross Margin

Turning now to gross margin: In our temporary and consultant staffing operations, third-quarter gross margin was 37.5 percent of applicable revenues, compared to 37.9 percent of applicable revenues in the third quarter one year ago. The year-over-year decline in gross margin percentage is primarily due to lower conversion revenues.

Our permanent placement revenues in the third quarter were 10.0 percent of consolidated staffing revenues, versus 10.7 percent of consolidated staffing revenues in the same quarter one year ago. When combined with temporary and consultant gross margin, overall staffing gross margin decreased 80 basis points compared to the year-ago third quarter, to 43.8 percent.

For Protiviti, gross margin was $87 million in the third quarter, or 27.1 percent of Protiviti revenues. This includes $3.4 million, or 1.1 percent of Protiviti revenues, of deferred compensation expense related to increases in the underlying trust investment assets. One year ago, gross margin for Protiviti was $88 million, or 29.4 percent of Protiviti revenues, including $200,000 of deferred compensation expense related to investment trust activities.

Selling, General and Administrative Costs

Companywide SG&A costs were 32.8 percent of global revenues in the third quarter, compared to 31.2 percent in the same quarter one year ago. Deferred compensation expense related to increases in underlying trust investments had the impact of increasing SG&A as a percent of revenue by 1.9 percent in the current third quarter and 0.1 percent in the same quarter one year ago.

Staffing SG&A costs were 40.2 percent of staffing revenues in the third quarter, versus 34.8 percent in Q3 2019. Included in staffing SG&A costs was deferred compensation expense related to increases in the underlying trust investment assets of 2.6 percent and 0.1 percent, respectively. The

increase in staffing SG&A as a percentage of revenues is primarily the result of continued negative leverage resulting from the decline in revenues.

Third-quarter SG&A costs for Protiviti were 13.0 percent of Protiviti revenues, compared to 16.2 percent of revenues in the year-ago period.

Segment Income

Operating income for the quarter was $77 million. This includes $26 million of deferred compensation expense related to increases in the underlying investment trust assets. Combined segment income was therefore $103 million in the third quarter. Combined segment margin was 8.6 percent. Third-quarter segment income from our staffing divisions was $54 million, with a segment margin of 6.2 percent. Segment income for Protiviti in the third quarter was $49 million, with a segment margin of 15.2 percent.

Tax Rate

Our third-quarter tax rate was 26 percent, compared to 28 percent a year ago. The lower third-quarter tax rate is primarily due to annual adjustments made to reconcile our tax accounts to prior-year tax returns as actually filed. Our nine-month, year-to-date tax rate of 28 percent is in line with what we expect for the full year.

Accounts Receivable

At the end of the third quarter, accounts receivable was $690 million, and implied days sales outstanding (DSO) was 52.3 days.

Guidance

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

Our temporary and consultant staffing divisions exited the third quarter with September revenues down 29.3 percent versus the prior year, compared to a 30.7 percent decrease for the full quarter. Revenues for the first two weeks of October were down 27 percent compared to the same period one year ago.

Permanent placement revenues in September were down 30.1 percent versus September of 2019. This compares to a 35.7 percent decrease for the full quarter. For the first three weeks in October, permanent placement revenues were down 31 percent compared to the same period in 2019.

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: $1.155 billion to $1.255 billion
- Income per share: $0.55 to $0.75

Guidance Assumptions

The midpoint of our guidance implies a year-over-year revenue decline of 22 percent on an as-adjusted basis (including Protiviti).

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

Revenue growth, year on year:
- Staffing: down 27% to 30%
- Protiviti: up 5% to 7%
- Overall: down 21% to 23%

Gross margin percentage:
- Temporary and Consultant Staffing: 37% to 38%
- Protiviti: 27% to 29%
- Overall: 39% to 40%

SG&A as percent of revenues, excluding deferred compensation investment impacts:
- Staffing: 36% to 38%
- Protiviti: 14% to 16%
- Overall: 30% to 32%

Segment income:
- Staffing: 6% to 8%
- Protiviti: 12% to 15%
- Overall: 8% to 10%

Tax rate: 27% to 29%

Shares: 113 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.

As is evidenced in the growth of our newly reported intersegment revenues, the partnership between Protiviti and our staffing operations continues to be an accelerating source of growth for the enterprise. We have also seen particular strength in our services to the public sector and financial services clients. In addition, we have experienced increased demand for services and solutions in cloud technology, online security, data privacy and digital transformation as enterprise client companies have continued to strategically invest in these areas.

The significant reductions we made to our cost structure in the second quarter have also benefited the third quarter and will continue to benefit future quarters.

Remote and hybrid working models will continue long after the pandemic ceases to require them. Access to talent is no longer limited to time zones or geographies. With our global network of talent and world-class technology tools, we can provide the right match for clients and candidates regardless of location.

While uncertainty remains in the overall economic environment as the pandemic continues, there is much to be optimistic about. As the fourth quarter progresses, the nature, timing and amount of any additional fiscal stimulus should be known. Medical solutions to the COVID-19 virus move ever closer to reality. And the NFIB continues to report improving trends in the small business community. A recent study showed that more than half of small businesses are hiring or trying to hire, with the vast majority reporting few or no qualified applicants.

We continue to believe in our positioning for future growth with the unique strengths of our brands, people, technology and professional business model.

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 conference ID are contained in the Company's press release issued earlier today.

Robert Half®