Q3 2021 CONFERENCE CALL

Prepared Remarks From:
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Robert Half®

THIRD-QUARTER 2021 FINANCIAL RESULTS CONFERENCE CALL, PREPARED REMARKS OCTOBER 21, 2021

OPERATOR:

Hello, and welcome to the Robert Half third-quarter 2021 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.

Our presentation of revenues and the related growth rates for Accountemps, OfficeTeam, Robert Half Technology and Robert Half Management Resources includes 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. The combined amount of divisional intersegment revenues with Protiviti is also separately disclosed. The supplemental schedules just mentioned also include a revenue schedule showing this information for 2019 through 2021.

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

We once again achieved a record level of both revenues and earnings in the third quarter, exceeding the high end of our guidance, as a result of continued broad-based acceleration in the demand for our staffing and business consulting services. Our permanent placement and Protiviti operations continued to show very strong results, growing year-over-year revenues by 79 percent and 56 percent, respectively. Our temporary and consultant staffing operations also accelerated in the quarter with year-over-year revenue growth of 35 percent. Overall, our total revenues were 10 percent higher than the pre-pandemic third quarter of 2019.

I am very grateful for the notable efforts of our staffing, Protiviti and corporate services professionals, who have continued to show an outstanding commitment to our success.

Companywide revenues were $1.713 billion in the third quarter of 2021, up 44 percent from last year's third quarter on a reported basis, and up 43 percent on an as-adjusted basis.

Net income per share in the third quarter was $1.53, increasing 129 percent compared to 67 cents in the third quarter one year ago.

Cash flow from operations during the quarter was $225 million. In September, we distributed a $0.38 per share cash dividend to our shareholders of record, for a total cash outlay of $42 million. We also acquired approximately 740 thousand Robert Half shares during the quarter, for $75 million. We have 7.7 million shares available for repurchase under our board-approved stock repurchase plan.

Return on invested capital for the Company was 53 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.

As Keith noted, global revenues were $1.713 billion in the third quarter.

On an as-adjusted basis, third-quarter staffing revenues were up 38 percent year-over-year. U.S. staffing revenues were $932 million, up 40 percent from the prior year. Non-U.S. staffing revenues were $279 million, up 34 percent year-over-year on an as-adjusted basis. We have 321 staffing locations worldwide, including 85 locations in 17 countries outside the United States.

In the third quarter, there were 64.4 billing days, compared to 64.3 in the same quarter one year ago. The current fourth quarter has 61.7 billing days, unchanged from 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 $7 million. This impacted our year-over-year reported staffing revenue growth rate by 0.8 percentage points.

Temporary and consultant bill rates for the quarter increased 5.4 percent compared to one year ago, adjusted for changes in the mix of revenues by line of business, currency and country. This rate for Q2 2021 was 3.7 percent.

Now, let's take a closer look at results for Protiviti. Global revenues in the third quarter were $501 million: $400 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 third-quarter Protiviti revenues were up 55 percent versus the year-ago period, with U.S. Protiviti revenues up 54 percent. Non-U.S. revenues were up 61 percent on an as-adjusted basis. Exchange rates had the effect of increasing year-over-year Protiviti revenues by $3 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.

SG&A and Gross Margin Presentation

We remind you that changes in the Company's deferred compensation obligations are classified as SG&A or, in the case of Protiviti, costs of services, with completely offsetting changes in the related trust investment assets classified separately below SG&A. Previously they were both classified as SG&A. Our historical discussion of consolidated operating income has been replaced with the non-GAAP measure of combined segment income. This is calculated as consolidated income before income taxes, adjusted for interest income and amortization of intangible assets.

For your convenience, we've included a supplemental schedule to today's earnings release on Page 7, highlighting the impact of changes in the deferred compensation accounts to the Summary of Operations for the third quarter of 2021 and 2020. This is a non-GAAP disclosure, so we also show a reconciliation to GAAP.

Gross Margin

Turning now to gross margin: In our temporary and consultant staffing operations, third-quarter gross margin was 40.0 percent of applicable revenues, compared to 37.5 percent of applicable revenues in the third quarter one year ago. Gross margins were positively impacted by expanding pay-bill spreads and higher conversion revenues.

Our permanent placement revenues in the third quarter were 12.9 percent of consolidated staffing revenues, versus 10.0 percent of consolidated staffing revenues in the same quarter one year ago. When combined with temporary and consultant gross margin, overall staffing gross margin increased 3.9 percentage points compared to the year-ago third quarter, to 47.7 percent.

For Protiviti, gross margin was 29.5 percent of Protiviti revenues, compared to 27.1 percent of Protiviti revenues one year ago. Adjusted for the effect of deferred compensation changes related to changes in the underlying trust investment assets as previously mentioned, adjusted gross margin for Protiviti was 29.4 percent for the quarter just ended, compared to 28.1 percent one year ago.

Selling, General and Administrative Costs

Companywide SG&A costs were 28.9 percent of global revenues in the third quarter, compared to 32.8 percent in the same quarter one year ago. Changes in deferred compensation obligations related to changes in underlying trust investments had the impact of decreasing SG&A as a percent of revenue by 0.1 percent in the current third quarter and increasing SG&A by 1.9 percent in the same quarter one year ago. When adjusted for these changes, companywide SG&A costs were 29.0 percent for the quarter just ended, compared to 30.9 percent one year ago.

Staffing SG&A costs were 35.9 percent of staffing revenues in the third quarter, versus 40.2 percent in Q3 2020. Included in staffing SG&A costs were deferred compensation reductions related to decreases in the underlying trust investment assets of 0.1 percent in the third quarter, compared to additions of 2.6 percent related to increases in the underlying trust investment assets in the same quarter one year ago. When adjusted for these changes, staffing SG&A costs were 36.0 percent for the quarter just ended, compared to 37.6 percent one year ago.

Third-quarter SG&A costs for Protiviti were 12.1 percent of Protiviti revenues, compared to 13.0 percent of revenues in the year-ago period.

Segment Income

Operating income for the quarter was $230 million. This includes $2 million of deferred compensation reductions related to changes in the underlying trust investment assets. Combined segment income was therefore $228 million in the third quarter. Combined segment margin was 13.3 percent. Third-quarter segment income from our staffing divisions was $141 million, with a segment margin of 11.6 percent. Segment income for Protiviti in the third quarter was $87 million, with a segment margin of 17.3 percent.

Tax Rate

Our third-quarter tax rate was 25 percent, compared to 26 percent one year ago.

Accounts Receivable

At the end of the third quarter, accounts receivable was $1.0 billion, and implied days sales outstanding (DSO) was 52.8 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 up 36 percent versus the prior year, compared to a 34 percent increase for the full quarter. Revenues for the first two weeks of October were up 35 percent compared to the same period one year ago.

Permanent placement revenues in September were up 68 percent versus September of 2020. This compares to a 78 percent increase for the full quarter. For the first three weeks in October, permanent placement revenues were up 62 percent compared to the same period in 2020.

We provide this information so 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: $1.655 billion to $1.735 billion
- Income per share: $1.37 to $1.47

Guidance

Midpoint revenues of 1.695 billion are 30 percent higher than 2020 and 10 percent higher than 2019 levels on an as-adjusted basis. Midpoint EPS of $1.42 is 69 percent higher than 2020 and 44 percent higher than 2019.

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

Revenue growth, year-over-year:				
Staffing:	Up	27%	to	30%
Protiviti:	Up	34%	to	36%
Overall:	Up	29%	to	31%
Gross margin percentage:				
Temporary and Consultant Staffing:		39.5%	to	40.5%
Protiviti:		27%	to	29%
Overall:		41%	to	43%
SG&A as percent of revenues, excluding deferred compensation investment impacts:				
Staffing:		35.5%	to	36.5%
Protiviti:		12.5%	to	13.5%
Overall:		29%	to	30%
Segment income:				
Staffing:		11%	to	12%
Protiviti:		14.5%	to	15.5%
Overall:		12%	to	13%
Tax Rate:		25%	to	26%
Shares:		111.2 million		

2021 capital expenditures and capitalized cloud computing costs: $15 to $20 million in the fourth quarter.

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.

The future of work increasingly includes flexible, hybrid and fully remote models and we are uniquely positioned to benefit in this environment. We can deliver deeper skills and more price-point choices to our clients by expanding our candidate searches beyond local markets. We leverage our global office network and our advanced AI-driven technologies to deliver the best candidates for contract or permanent roles regardless of location – all while continuing to deliver the same superior customer experience our clients have come to expect. This trend, together with elevated employee attrition rates at clients, has contributed to our staffing results recovering at a faster pace than we've experienced in the past. Our permanent placement and temporary and consultant staffing segments, including blended solutions with Protiviti, have achieved cumulative sequential growth of 92 percent and 50 percent, respectively, during the five quarters since the trough. Similar numbers for the financial crisis and dot-com recoveries were 41 percent and 23 percent, and 45 percent and 31 percent, respectively.

The National Federation of Independent Business, NFIB, recently reported that 62 percent of small businesses had few or no qualified applicants for open positions, and 51 percent had job openings that could not be filled, a 48-year record high. And we are seeing the impact of this on demand for our services on a very broad basis, spanning across industries, client size, skill levels, geographies, and lines of business.

Protiviti continues to excel, with multiple years of consecutive growth and a highly diversified client base and suite of solution offerings. The collaboration between Protiviti and staffing continues to be a strong differentiator, pairing Protiviti's world-class consulting talent with staffing's deep operational resources to provide a cost-effective solution to clients' skills and scalability needs. Growth remains strong across internal audit, technology consulting, risk and compliance consulting, and business performance improvement. Protiviti also continues to benefit from project work in the public sector resulting from various federal and state stimulus programs. Approximately $110 million in revenue this quarter resulted from work related to these programs, or approximately 7 cents of our earnings per share. Growth in this public sector business contributed 26 points to Protiviti's year-on-year growth rate of 56 percent, while the core business maintained a growth rate of 30 percent. Public sector revenues represent 6 percent of total revenues and contributed 7 points to the Company's overall 44 percent growth rate.

We are excited about the opportunities ahead of us as the recovery continues with strong momentum and the future of work continues to evolve. As we have done historically, we will continue to invest in our people, our technology, our brands and our business model to strengthen our ability to connect people to meaningful new work and provide clients with the talent and deep subject matter expertise they need to confidently compete and grow.

Finally, we'd like to thank our employees around the world for making possible another significant recognition received this quarter, as Forbes named us one of the World's Best Employers. We were also recognized by Newsweek as one of America's Most Responsible Companies for our ESG efforts, many of which are outlined in our recently released Corporate Citizenship Report.

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.