Q4 2020
CONFERENCE CALL

Prepared Remarks From:
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January 28, 2021

Robert Half®

FOURTH-QUARTER 2020 FINANCIAL RESULTS
CONFERENCE CALL, PREPARED REMARKS
JANUARY 28, 2021

OPERATOR:

Hello, and welcome to the Robert Half fourth-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 would like to remind you that, beginning last quarter, we 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. 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 2018, 2019 and 2020.

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

Fourth-quarter results for both our Protiviti and staffing operations were very strong and exceeded the top end of our guidance range. Protiviti reported its 13th consecutive quarter of year-on-year revenue gains, with particular strength in its technology consulting practice and managed solutions with staffing. Our staffing operations reported broad-based, double-digit, quarter-on-quarter sequential revenue growth on an as-adjusted basis.

I could not be more proud of how our teams have managed through this extraordinary year. Over the last several months, they have made significant impacts helping our clients succeed and job candidates find meaningful work.

Companywide revenues were $1.304 billion in the fourth quarter of 2020, down 15 percent from last year's fourth quarter on a reported basis, and down 16 percent on an as-adjusted basis.

Net income per share in the fourth quarter was 84 cents, compared to 98 cents in the fourth quarter one year ago.

Cash flow before financing activities during the quarter was $85 million. In December, we distributed a $.34 per-share cash dividend to our shareholders of record, for a total cash outlay of $39 million. We also acquired 1.1 million Robert Half shares during the quarter, for $63 million. We have 9.9 million shares available for repurchase under our board-approved stock repurchase plan.

Return on invested capital for the Company was 31 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.

Revenues

Let's start with revenues. As Keith noted, global revenues were $1.304 billion in the fourth quarter. This is a decrease of 15 percent from the fourth quarter one year ago on a reported basis and a decrease of 16 percent on an as-adjusted basis.

On an as-adjusted basis, fourth-quarter staffing revenues were down 24 percent year over year. U.S. staffing revenues were $723 million, down 25 percent from the prior year. Non-U.S. staffing revenues were $219 million, down 23 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 fourth quarter, there were 61.7 billing days, equal to the number of billing days in the fourth quarter one year ago. The current first quarter has 62.3 billing days, compared to 63.1 billing days in the first quarter one year ago. The billing days for 2021, by quarter, are 62.3, 63.4, 64.4 and 61.7 for a total of 251.8, which is approximately 1 day less than 2020 due to it being a leap year.

Currency exchange rate movements during the fourth quarter had the effect of increasing reported year-over-year staffing revenues by $8 million. This increased our year-over-year reported staffing revenue growth rate by 0.7 percentage points.

Temporary and consultant bill rates for the quarter increased 2.0 percent compared to a year ago, adjusted for changes in the mix of revenues by line of business. This rate for Q3 2020 was 3.1 percent.

Now, let's take a closer look at results for Protiviti. Global revenues in the fourth quarter were $362 million: $294 million of that is from business within the United States, and $68 million is from operations outside the United States. On an as-adjusted basis, global fourth-quarter Protiviti revenues were up 18 percent versus the year-ago period, with U.S. Protiviti revenues up 23 percent. Non-U.S. revenues were down 2 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 1.0 percentage point. Protiviti and its independently owned Member Firms serve clients through a network of 86 locations in 28 countries.

SG&A Presentation
As first noted last quarter, changes in the Company's deferred compensation obligations are now included in SG&A or, in the case of Protiviti, direct cost, with offsetting changes in the investment trust assets presented separately below SG&A. As a reminder, 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 added another supplemental schedule to today's earnings release on pages 12 and 13, highlighting the impact of changes in the deferred compensation accounts to the Summary of Operations for the fourth quarter and full-year 2020 and 2019. 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, fourth-quarter gross margin was 38.5 percent of applicable revenues, compared to 38.0 percent of applicable revenues in the fourth quarter one year ago. The year-over-year increase in gross margin percentage is primarily due to lower payroll taxes, insurance and other fringe costs.

Our permanent placement revenues in the fourth quarter were 9.7 percent of consolidated staffing revenues, versus 10.3 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 10 basis points compared to the year-ago fourth quarter, to 44.4 percent.

For Protiviti, gross margin was $96 million in the fourth quarter, or 26.5 percent of Protiviti revenues. This includes $5 million, or 1.5 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 $90 million, or 29.7 percent of Protiviti revenues, including $2 million of deferred compensation expense, or 0.7 percent of Protiviti revenues, related to investment trust activities.

Selling, General and Administrative Costs
Companywide SG&A costs were 32.6 percent of global revenues in the fourth quarter, compared to 32.8 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 2.7 percent in the current quarter and 1.2 percent in the same quarter one year ago.

Staffing SG&A costs were 39.7 percent of staffing revenues in the fourth quarter, versus 36.7 percent in Q4 2019. Included in staffing SG&A costs was deferred compensation expense related to increases in the underlying trust investment assets of 3.7 percent and 1.5 percent, respectively. We ended 2020 with 7,800 full-time internal staff in our staffing divisions, down 32 percent from the prior year.

Fourth-quarter SG&A costs for Protiviti were 14.1 percent of Protiviti revenues, compared to 17.1 percent of revenues in the year-ago period. We ended 2020 with 7,300 full-time Protiviti employees and contractors, up 34 percent from the prior year.

Segment Income
Operating income for the quarter was $89 million. This includes $41 million of deferred compensation expense related to increases in the underlying investment trust assets. Combined segment income was therefore $130 million in the fourth quarter. Combined segment margin was 9.9 percent. Fourth-quarter segment income from our staffing divisions was $79 million, with a segment margin of 8.4 percent. Segment income for Protiviti in the fourth quarter was $51 million, with a segment margin of 13.9 percent.

Tax Rate
Our fourth-quarter tax rate was 27 percent for both the current and prior-year periods.

Accounts Receivable
At the end of the fourth quarter, accounts receivable was $714 million, and implied days sales outstanding (DSO) was 49.4 days.

Guidance
Before we move to first-quarter guidance, let's review some of the monthly revenue trends we saw in the fourth quarter of 2020 and so far in January 2021, all adjusted for currency and billing days.

Our temporary and consultant staffing divisions exited the fourth quarter with December revenues down 20.8 percent versus the prior year, compared to a 23.8 percent decrease for the full quarter. Revenues for the first three weeks of January were down 23 percent compared to the same period one year ago.

Permanent placement revenues in December were down 25.4 percent versus December of 2019. This compares to a 28.5 percent decrease for the full quarter. For the first three weeks in January, permanent placement revenues were down 20 percent compared to the same period in 2020.

We provide this information so that 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: $1.29 billion to $1.37 billion
- Income per share: $0.74 to $0.84

Guidance Assumptions
The midpoint of our guidance implies a year-over-year revenue decline of 11.7 percent on an as-adjusted basis (including Protiviti) and EPS returning to prior-year levels.

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

Revenue growth, year on year:
- Staffing: down 19% to 21%
- Protiviti: up 23% to 25%
- Overall: down 11% to 13%

Gross margin percentage:
- Temporary and Consultant Staffing: 37% to 38%
- Protiviti: 25% to 26%
- Overall: 38% to 39%

SG&A as percent of revenues, excluding deferred compensation investment impacts:
- Staffing: 35% to 36%
- Protiviti: 14% to 15%
- Overall: 29% to 30%

Segment income:
- Staffing: 8% to 9%
- Protiviti: 10% to 12%
- Overall: 8% to 10%

2021 capital expenditures and capitalized cloud computing costs: $85 to $95 million, with $15 to $20 million in the first quarter.

Tax rate: 27% to 28%

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.

We enter 2021 with renewed optimism about Robert Half's positioning for future growth. We have retained our key staff, and they are committed to driving our success as the backbone of our enterprise. Our aggressive go-to-market strategy during the pandemic, with clients in the public sector and financial institutions of all sizes, has yielded meaningful wins and new relationships. Our technology investments have facilitated remote working models internally and, with our advanced AI-driven capabilities, are providing clients with real-time choices of candidates from outside their local market area. Owing to its diversified solution offerings, Protiviti continues its record of multiyear double-digit revenue growth and very positive pipeline. The collaboration between Protiviti and staffing is at an all-time high as evidenced by the 82 percent year-on-year growth rate this quarter from the unique blend of consulting and staffing solutions. Staffing services provided to our mid-cap clients now approaches one-third of our revenues and growing, and this is incremental to our traditional focus on SMB clients and prospects.

With multiple vaccines now rolling out throughout the world and fiscal and monetary policy support expected to continue globally, economists are increasingly expecting GDP growth to follow. GDP-driven early-cycle growth is traditionally particularly robust for SMB clients that are lean and nimble from a downturn and have pent-up demand to restore and upskill their workforce as they return to growth.

More than ever, we believe the strength of our brands, people, technology and professional business model position us for future success in 2021 and beyond.

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.