Q4 2022 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

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OPERATOR:

Hello, and welcome to the Robert Half fourth-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.

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.

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

2022 was a very successful year across the entire Robert Half enterprise. We grew full-year revenues and earnings per share — both by more than 12 percent — and achieved new record levels for each. All of our major practice areas — Contract, Permanent Placement and Protiviti — reached all-time highs, over and above the very strong growth in the prior year. We enter 2023 optimistic about our ability to navigate the uncertain global macroeconomic environment and the tight labor markets around the world.

For the fourth quarter of 2022, companywide revenues were $1.727 billion, down 2 percent from last year's fourth quarter on a reported basis, and up 1 percent on an as adjusted basis.

Net income per share in the fourth quarter was $1.37, compared to $1.51 in the fourth quarter one year ago.

Cash flow from operations during the quarter was $202 million. In December, we distributed a 43 cent per-share cash dividend to our shareholders of record, for a total cash outlay of $47 million. Our per-share dividend has grown 11.2 percent annually since its inception in 2004. The December 2022 dividend was 13.2 percent higher than in 2021. We also acquired approximately 800 thousand Robert Half shares during the quarter for $61 million. We have 3.8 million shares available for repurchase under our board-approved stock repurchase plan.

Return on invested capital for the Company was 39 percent in the fourth 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 $1.727 billion in the fourth quarter.

On an as adjusted basis, fourth-quarter talent solutions revenues were down 1 percent year over year. U.S. talent solutions revenues were $964 million, down 2 percent from the prior year. Non-U.S. talent solutions revenues were $264 million, up 5 percent year over year on an as adjusted basis. We have 317 talent solutions locations worldwide, including 86 locations in 18 countries outside the United States.

In the fourth quarter, there were 61.2 billing days, compared to 61.7 billing days in the same quarter one year ago. The first quarter of 2023 has 63.3 billing days, compared to 62.4 billing days during the first quarter of 2022. Billing days for the remaining three quarters of 2023 will be 63.3, 63.1 and 61.1 for a total of 250.8 billing days in the year.

Currency exchange rate movements during the fourth quarter had the effect of decreasing reported year-over-year total revenues by $39 million — $27 million for talent solutions and $12 million for Protiviti. This negatively impacted our year-over-year overall revenue growth rate by 2.2 percentage points — 2.1 percentage points for talent solutions and 2.4 percentage points for Protiviti.

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Contract talent solutions bill rates for the quarter increased 7.8 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 9.0 percent.

Now let's take a closer look at results for Protiviti. Global revenues in the fourth quarter were $499 million: $401 million of that is from business within the United States, and $98 million is from operations outside the United States. On an as adjusted basis, global fourth-quarter Protiviti revenues were up 4 percent versus the year-ago period, with both U.S. and non-U.S. Protiviti revenues up 4 percent on an as adjusted basis. Protiviti and its independently owned Member Firms serve clients through a network of 89 locations in 29 countries.

Companywide fourth-quarter public sector revenues were $83 million, of which $60 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 approximately $3 million in the quarter. Full-year public sector revenues were down approximately 8 percent, or 3 percent adjusted for currency.

Gross Margin

Turning now to gross margin: In contract talent solutions, fourth-quarter gross margin was 39.9 percent of applicable revenues, compared to 39.8 percent of applicable revenues in the fourth quarter one year ago. Conversion revenues (or contract-to-hire) were 3.7 percent of revenues in the quarter.

Our permanent placement revenues in the fourth quarter were 12.7 percent of consolidated talent solutions revenues, versus 12.4 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 47.5 percent, compared to 47.2 percent of applicable revenues in the fourth quarter one year ago.

For Protiviti, gross margin was 27.2 percent of Protiviti revenues, compared to 28.7 percent of Protiviti revenues one year ago. Adjusted for deferred-compensation-related classification impacts, gross margin for Protiviti was 28.0 percent for the quarter just ended, compared to 29.3 percent one year ago.

Selling, General and Administrative Costs

Enterprise SG&A costs were 31.6 percent of global revenues in the fourth quarter, compared to 30.8 percent in the same quarter one year ago. Adjusted for deferred-compensation-related classification impacts, enterprise SG&A costs were 30.4 percent for the quarter just ended, compared to 29.7 percent one year ago.

Talent solutions SG&A costs were 38.9 percent of talent solutions revenues in the fourth quarter, versus 37.7 percent in the fourth quarter of 2021. Adjusted for deferred-compensation-related classification impacts, talent solutions SG&A costs were 37.2 percent for the quarter just ended, compared to 36.2 percent one year ago.

The higher mix of permanent placement revenues this quarter versus one year ago had the effect of adding 0.2 percentage points to the quarter's adjusted SG&A ratio. We ended 2022 with 9,300 full-time internal employees in our talent solutions divisions, up 5.0 percent from the prior year.

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Fourth-quarter SG&A costs for Protiviti were 13.6 percent of Protiviti revenues, compared to 12.9 percent of revenues in the year-ago period as operating expenditures returned to more normal levels. We ended 2022 with 11,700 full-time Protiviti employees and contractors, up 2.4 percent from the prior year.

Segment Income
Operating income for the quarter was $174 million. Adjusted for deferred-compensation-related classification impacts, combined segment income was $199 million in the fourth quarter. Combined segment margin was 11.5 percent. Fourth-quarter segment income from our talent solutions divisions was $127 million, with a segment margin of 10.3 percent. Segment income for Protiviti in the fourth quarter was $72 million, with a segment margin of 14.4 percent.

Tax Rate
Our fourth-quarter tax rate was 27 percent, up from 24 percent for the same quarter one year ago. The higher tax rate for 2022 can be primarily attributed to higher non-deductible expenses in 2022, as well as lower stock compensation deductions due to the Company's stock price.

Accounts Receivable
At the end of the fourth quarter, accounts receivable were $1.018 billion, and implied days sales outstanding (DSO) was 53.1 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 6 percent versus the prior year, compared to a 1 percent decrease for the full quarter. Revenues for the first two weeks of January were down 7 percent compared to the same period one year ago.

Permanent placement revenues in December were down 1 percent versus December of 2021. This compares to a 2 percent increase for the full quarter. For the first three weeks in January, permanent placement revenues were down 23 percent compared to the same period in 2022.

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: $1.685 billion to $1.765 billion
- Income per share: $1.10 to $1.20

Guidance Assumptions
Midpoint revenues of $1.725 billion are 5.4 percent lower than the same period in 2022 on an as adjusted basis.

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

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Revenue growth, year-over-year, as adjusted:				
Talent solutions:	Down	7%	to Down	12%
Protiviti:	Up	6%	to	9%
Overall:	Down	3%	to Down	7%
Gross margin percentage:				
Contract talent:		38%	to	40%
Protiviti:		24%	to	26%
Overall:		39%	to	41%
SG&A as percent of revenues, excluding deferred-compensation classification impacts:				
Talent solutions:		36%	to	38%
Protiviti:		14%	to	16%
Overall:		30%	to	32%
Segment income:				
Talent solutions:		8%	to	11%
Protiviti:		8%	to	11%
Overall:		8%	to	11%
Tax Rate:		27%	to	28%
Shares:		106.5 to 107.5 million		

2023 capital expenditures and capitalized cloud computing costs: $100 million to $120 million, with $20 to $25 million in the first 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.

Global labor markets remain tight and the demand for talent remains high, despite continued economic uncertainty. Clients continue to hire, albeit at an even more measured pace, which has the effect of lengthening the sales cycle.

Although recent metrics have come off all-time highs, talent shortages persist. In the United States, unemployment stands at 3.5 percent — a 50-year low — and remains even lower for those with a college degree, where the rate is 1.9 percent. Job openings and quit rates remain elevated. Unemployment claims remain low. Similar reports across the globe also point to labor market resilience.

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Protiviti continues to have a very strong pipeline across an increasingly diverse offering of solutions. Both the regulatory risk and compliance practice, and technology consulting practice show particular strength. In 2022 Protiviti achieved record-high revenues of nearly $2 billion — even while overcoming the wind-down of a very large financial services project and a shift in the trend of public sector engagements to projects more applicable to talent solutions. Demand for Protiviti's services remains robust and is only mildly impacted by current economic conditions.

While there remains volatility in the macroeconomic environment, we are optimistic about our outlook for 2023. We have successfully navigated many economic cycles, each time achieving higher peaks. This was demonstrated by our ability to achieve the fastest recovery in our company's history following the COVID-19 downturn. We also continue to benefit from Protiviti's resiliency, which stems from its diversified solutions offerings that are much less tied to the economic cycle.

Longer term, we are encouraged by the growth and margin prospects from our ongoing focus on services related to talent with higher level skills. These include Management Resources, Full-time Engagement Professionals, Managed Solutions, Robert Half Technology and Protiviti. In addition, the structural shift to remote work, particularly with higher skills, creates new competitive advantage as it highlights our numerous strengths, including our global brand, office network, candidate database and advanced AI-driven technologies. Also, our very successful investments in innovation and technology — which continue — position us to meaningfully improve both the digital and recruiter experience for our clients and candidates and the internal productivity of our staff.

We remain committed to our time-tested corporate purpose, to connect people to meaningful and exciting work and provide clients with the talent and subject-matter expertise they need to confidently compete and grow.

I could not be more proud of all our global teams, including talent solutions, Protiviti and corporate services professionals, who have put so much energy and dedication into our results this year. Their efforts made possible a record number of awards and accolades in 2022. Fourth-quarter recognition included being named as one of the Best Workplaces for Parents™ and honored by Forbes as one of the World's Top Female-Friendly Companies. We are particularly proud of the recognition we continue to receive for our commitment to diversity, equity and inclusion.

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.

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