Q2 2017 CONFERENCE CALL

Prepared Remarks From:
Harold M. Messmer, Jr., Chairman and CEO, Robert Half International
M. Keith Waddell, Vice Chairman, President and CFO, Robert Half International

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Robert Half®

SECOND-QUARTER 2017 FINANCIAL RESULTS
CONFERENCE CALL, JULY 25, 2017
PREPARED REMARKS

OPERATOR:

Hello, and welcome to the Robert Half second-quarter 2017 conference call. Our hosts for today's call are Mr. Max Messmer, chairman and CEO of Robert Half, and Mr. Keith Waddell, vice chairman, president and chief financial officer. Mr. Messmer, you may begin.

INTRODUCTION

HAROLD M. "MAX" MESSMER, JR., CHAIRMAN AND CEO, ROBERT HALF:

Good afternoon, everyone. Thank you for joining us.

Before we begin, I want to remind you there are comments on the call today that contain predictions, estimates and other forward-looking statements. These statements represent our current judgment of what the future holds and include words such as "forecast," "estimate," "project," "expect," "believe," "guidance" and similar expressions. We believe these remarks to be reasonable; however, they are subject to risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Some of these risks and uncertainties are described in today's press release and in our SEC filings, including our 10-Ks, 10-Qs and today's 8-K. We assume no obligation to update the statements made on today's call.

For your convenience, our prepared remarks also are available on our website at www.roberthalf.com. From the "About Us" tab, go to our Investor Center, where you will find the Quarterly Conference Calls link.

Let's review our second-quarter financial results. Revenues were $1.308 billion, down 1 percent on a same-day, constant-currency basis, and down 3 percent on a reported basis from the second quarter of 2016. Income per share was 64 cents. Both revenues and EPS were slightly above the midpoint of our previous guidance for this quarter. [Year-to-date] cash flow from operations was $253 million. Capital expenditures were $11 million.

During the quarter, we returned $31 million to our shareholders through a $0.24 per share cash dividend. We also repurchased 1.0 million Robert Half shares for $47 million during the quarter. We have 4.2 million shares available for repurchase under our board-approved stock repurchase plan.

Second-quarter revenues were strongest internationally, but we also were pleased with the quarter-over-quarter, sequential performance of our domestic staffing operations. Every U.S. staffing line of business reported higher sequential revenue growth this year than the same period a year ago. Sequential revenue growth for overall U.S. staffing operations was 2 percent in the second quarter versus a sequential decline of 1 percent a year ago.

Robert Half's return on invested capital was 29 percent during the second quarter.

I'll turn the call over to Keith now for a closer look at our results.

M. KEITH WADDELL, VICE CHAIRMAN, PRESIDENT AND CFO, ROBERT HALF:

Revenues
As Max just noted, global revenues were $1.308 billion in the second quarter. This is down 3 percent from one year ago, on a reported basis, and down 1 percent on a same-day, constant-currency basis.

Revenues for our staffing business were down 1 percent year-over-year on a same-day, constant-currency basis. U.S. staffing revenues were $872 million, down 3 percent on a same-day basis. Non-U.S. staffing revenues were $239 million, up 7 percent when adjusted for billing days and currency-exchange rates. We have 325 staffing locations worldwide, including 83 locations in 17 countries outside the United States.

The second quarter had 63.3 billing days, compared to 63.9 days in the second quarter of 2016. The current third quarter has 63.1 billing days, compared to 64.1 days in the third quarter of last year.

Accompanying our earnings release is a supplemental schedule showing year-over-year revenue growth rates on both a reported and same-day, constant-currency basis. This data is further broken out by U.S. and non-U.S. operations. This is a non-GAAP financial measure that offers insight into certain revenue trends in our operations. The effect of currency-exchange rates decreased our reported year-over-year staffing revenues by $9 million in the second quarter, which decreased year-over-year reported staffing growth rates by 0.7 percent.

Global revenues for Protiviti were $197 million in the second quarter, with $164 million coming from revenues in the United States and $33 million from revenues outside the United States. Protiviti revenues were up 1 percent year-over-year on a same-day, constant-currency basis.

U.S. Protiviti revenues were up 2 percent from the prior year on a same-day basis, and non-U.S. revenues were down 1 percent. Exchange rates had the effect of decreasing year-over-year Protiviti revenues by $1 million in the second quarter and decreasing the year-over-year reported growth rate by 0.7 percent. Protiviti and its independently owned Member Firms serve clients through a network of 75 locations in 25 countries.

Gross Margin
Now let's turn to gross margin. Gross margin in our temporary and consulting staffing operations in the second quarter was 37.4 percent of applicable revenues. This is a 20 basis-point decline from the same period one year ago, primarily due to the absence of prior-year workers' compensation credits of $1.4 million and slightly lower temp-to-hire conversions.

Revenues for our permanent placement operations were 10.1 percent of consolidated staffing revenues in the second quarter, which is up compared to last year's 9.9 percent. Together with temporary and consulting gross margin, overall staffing gross margin fell 10 basis points versus one year ago, to 43.7 percent.

Second-quarter gross margin for Protiviti was $53 million, or 26.7 percent of Protiviti revenues. A year ago, Protiviti gross margin was $56 million, or 28.1 percent of Protiviti revenues.

Selling, General and Administrative Costs
In the second quarter, staffing SG&A costs were 33.5 percent of staffing revenues versus 32.3 percent in the second quarter of 2016.

Second-quarter SG&A costs for Protiviti were 18.3 percent of Protiviti revenues compared to 19.1 percent of Protiviti revenues in the year-ago period.

Operating Income
Operating income from our staffing divisions was $114 million in the second quarter, down 13 percent from the prior year. Operating margin was 10.3 percent. Our temporary and consulting staffing divisions reported $93 million in operating income. This was a decrease of 13 percent from 2016 and resulted in an operating margin of 9.3 percent. Second-quarter operating income for our permanent placement division was $21 million, down 14 percent from the prior year and producing an operating margin of 18.7 percent. Operating profit for Protiviti was $17 million in the second quarter, a decrease of 7 percent from 2016, producing an operating margin of 8.4 percent.

Accounts Receivable
At the end of the second quarter, accounts receivable were $708 million. Implied days sales outstanding (DSO) was 49.3 days.

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

Our temporary and consulting staffing divisions exited the second quarter with June revenues down 2 percent versus the prior year, compared to a 1.6 percent decline for the full quarter. Revenue growth for the first two weeks of July was down 2.9 percent compared to the prior year.

For our permanent placement operations, June revenues were up 5.4 percent versus last year, compared to a 1.4 percent increase reported for the full quarter. For the first three weeks in July, permanent placement revenues were up 9.8 percent compared to the same period last year.

This information covers trends we saw during the second quarter and in July. But, as you know, we hesitate to read too much into these numbers as they represent very brief periods of time and include holiday impacts from the 4th of July.

With that said, we offer the following third-quarter guidance:
- Revenues: $1 billion, 305 million to $1 billion, 365 million
- Income per share: $0.66 to $0.72

The midpoint of our Q3 guidance implies reported revenues are down slightly, or negative 0.3 percent on a year-over-year basis. However, revenues are up 1.1 percent adjusted for days and currency (including Protiviti). EPS is down 2.5 percent.

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 Max.

MAX MESSMER, CHAIRMAN AND CEO, ROBERT HALF:

Thank you, Keith. We were encouraged by our second-quarter results, particularly the continued strength in our non-U.S. staffing operations and the sequential progress of our U.S. operations.

Although GDP growth in the United States has been sluggish, the business outlook is positive. Since the start of 2017, U.S. business leaders, particularly owners of small and midsize companies, have expressed confidence in their prospects. If GDP growth improves, we believe hiring activity should not be far behind. The Federal Reserve Beige Book reported that "economic activity expanded across all 12 Federal Reserve Districts in June, with the pace of growth ranging from slight to moderate." The Fed also reported that "employment across most of the nation maintained a modest-to-moderate pace of expansion."

A common thread among many of these business sentiment surveys is concern over the lack of available talent. As skills shortages become more pronounced in professional occupations, Robert Half is positioned to help companies locate and hire this hard-to-find talent. It's what we do best.

We are investing continually in technology innovation to better serve our customers. But technology has its limitations, and a great many steps in the hiring process require human skill and judgment. We believe Robert Half's competitive difference is our ability to offer both innovative technology solutions and personal attention backed by nearly 70 years of experience.

Protiviti also had a solid quarter, particularly its U.S. internal audit and risk and compliance practices. In our view, Protiviti is well positioned in the marketplace.

Now, Keith and I would be happy to answer your questions. We ask that you please limit yourself to one question and a single follow-up, as needed. If time permits, we'll try to return to you if you have additional questions.

Q&A SESSION

MAX MESSMER, CHAIRMAN AND CEO, ROBERT HALF:

That was our last question. We would like to thank everyone again for joining us on today's call.

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.

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