

Q3 2015 CONFERENCE CALL

Prepared Remarks From:

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October 21, 2015



THIRD-QUARTER 2015 FINANCIAL RESULTS CONFERENCE CALL, OCTOBER 21, 2015 PREPARED REMARKS

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OPERATOR:

Hello, and welcome to the Robert Half third-quarter 2015 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. We appreciate your time today.

Before we begin, I would like to remind you that comments made on today's call 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 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.

Now, let's review our third-quarter results. Revenues in the third quarter were \$1.31 billion, up 7 percent from the same period one year ago on a reported basis, or up 11 percent adjusted for currency. Income per share was 73 cents, up 16 percent from this time last year. Cash flow from operations was \$94 million. Capital expenditures were \$19 million.

During the quarter, we returned \$25 million in cash to our shareholders through a dividend of \$0.20 per share. And we also repurchased 1.6 million Robert Half shares, for \$82 million. There are approximately 1.8 million shares available for repurchase under our board-approved stock repurchase plan.

Improving labor markets, particularly in the United States, contributed to higher demand for Robert Half's professional staffing and consulting services during the third quarter. Consolidated quarterly revenues reached record levels, fueled by strong results from Protiviti, Robert Half Technology and our permanent placement operations. Protiviti had an outstanding quarter, with revenues up 23 percent from one year ago when adjusted for currency.

This was Robert Half's 22nd straight quarter of double-digit net income and earnings per share growth on a year-over-year percentage basis. Unlevered return on equity was 38 percent.

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

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

Revenues

As Max just noted, global revenues were \$1.31 billion in the third quarter. This is up 7 percent from the third quarter of 2014 on a reported basis, and up 11 percent on a currency-adjusted basis.

Third-quarter staffing revenues were up 9 percent on a currency-adjusted basis. U.S. staffing revenues were \$891 million in the third quarter, up 10 percent. Non-U.S. staffing revenues were \$220 million, up 4 percent when adjusted for currency. We have 332 staffing locations worldwide, including 92 locations in 17 countries outside the United States.

The third quarter had 64.2 billing days, the same number of days as the third quarter one year ago. The current fourth quarter has 62.3 billing days, compared to 61.7 billing days in the fourth quarter of last year.

Accompanying our earnings release is a supplemental schedule showing year-over-year revenue growth rates for our staffing lines of business on both a reported and same-day, currency-adjusted 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 staffing operations.

Currency exchange rates had the effect of decreasing year-over-year staffing revenues by \$40 million in the third quarter, and reducing year-over-year reported staffing growth rates by 4 percent.

Global revenues for Protiviti were \$202 million in the third quarter, with \$172 million in revenues in the United States and \$30 million in revenues outside the U.S. Protiviti revenues were up 23 percent year over year on a currency-adjusted basis. U.S. revenues were up 25 percent, and non-U.S. revenues were up 16 percent from the prior year when adjusted for currency. Exchange rates had the effect of decreasing year-over-year Protiviti revenues by \$5 million in the third quarter and decreasing year-over-year reported growth rates by 3 percent. Protiviti and its independently owned Member Firms serve clients through a network of 75 locations in 25 countries.

Gross Margin

Gross margin in our temporary and consulting staffing operations in the third quarter was 37.3 percent of applicable revenues. This is a 40 basis-point improvement from the same period one year ago. The improvement includes higher pay/bill spreads, higher temp-to-hire conversion fees, and lower insurance and payroll tax costs.

Third-quarter revenues for our permanent placement operations were 10.0 percent of consolidated staffing revenues, which is slightly higher than last year's 9.7 percent. Together with temporary and consulting gross margin, overall staffing gross margin improved 50 basis points versus one year ago, to 43.5 percent.

Third-quarter gross margin for Protiviti was \$66 million, or 32.9 percent of Protiviti revenues. Gross margin one year ago for Protiviti was \$51 million, or 30.5 percent of Protiviti revenues.

Selling, General and Administrative Costs

Staffing SG&A costs were 32.1 percent of staffing revenues in the third quarter versus 31.7 percent in last year's third quarter. The increase relates largely to a higher number of internal field staff and the related compensation costs.

SG&A costs for Protiviti were 17.2 percent of Protiviti revenues in the third quarter compared to 19.0 percent of Protiviti revenues in the year-ago period.

Operating Income

Operating income from our staffing divisions was \$127 million in the third quarter, up 7 percent from the prior year. Operating margin was 11.5 percent. Our temporary and consulting staffing divisions reported \$103 million in operating income, an increase of 5 percent over the prior year. This resulted in an operating margin of 10.3 percent. Operating income for our permanent placement division was \$24 million in the third quarter, up 14 percent from the prior year and producing an operating margin of 22.0 percent.

Third-quarter operating profit for Protiviti was \$32 million, an increase of 65 percent from the prior year. This produced an operating margin of 15.7 percent.

Accounts Receivable

At the end of the third quarter, accounts receivable were \$731 million. Implied days sales outstanding (DSO) was 50.7 days.

Guidance

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

Globally, year-over-year revenue growth rates for our temporary and consulting divisions decelerated slightly over the course of the third quarter. We exited the quarter with September growing at 7 percent, as compared to 8 percent for the full quarter. Revenue growth for the first two weeks of October picked up slightly to 9 percent compared to the prior year.

Global permanent placement revenue growth rates also decelerated throughout the quarter, with September revenues growing at 10 percent, as compared to 14 percent for the full quarter. For the first three weeks of October, permanent placement revenues increased 3 percent compared to the same period last year.

Overall, U.S. versus non-U.S. trends were not materially different, except for permanent placement revenues during the first three weeks of October. Non-U.S. perm started slowly, with a negative 14 percent growth rate during this short, three-week period.

We provide this snapshot to give you additional insight into trends we saw during the third quarter and so far in October, but, as you know, it is difficult to read a great deal into these numbers given the short time periods they represent.

With that said, we offer the following fourth-quarter guidance:

- Revenues: \$1 billion, 285 million to \$1 billion, 335 million
- Income per share: \$0.67 to \$0.72

The midpoint of our guidance implies year-over-year revenue growth of 7 percent on a reported basis, or 10 percent adjusted for currency, and EPS growth of 12 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. As we noted at the start of the call, we continue to see healthy demand for our services across the board. And we believe we have a number of reasons to be optimistic about our prospects for further growth:

- Economic trends are in our favor. In the United States, the unemployment rate hit its lowest level in seven years in August and remained there in September. The four-week moving average for initial jobless claims is near a 42-year low.
- Non-U.S. markets also are improving, particularly in Europe. The unemployment rate in the United Kingdom recently hit a seven-year low.
- Technology remains the hottest segment of staffing both here and abroad. We are investing in Robert Half Technology to take advantage of this demand.
- But it's not just technology. There is a widening skills gap in a number of our professional specialty areas that has many employers struggling to find the talent they need. This presents us with the opportunity to partner with them to locate these workers. And that is precisely what our field teams are doing right now.
- We are extremely pleased with how well our Protiviti business is doing. Protiviti has successfully diversified its service offerings and is being rewarded with broad-based growth in three of its major consulting segments: internal audit and financial advisory services; risk and compliance; and information technology consulting. This is a business with a loyal and growing client base.

At this time, we will be happy to answer questions. We would request that you please limit yourself to one question and a single follow-up, as needed. If time permits, we will try to return to you later in the call if you have additional questions.

(After the last question is answered the Operator will turn the call over to Max.)

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.

