

Q3 2016 CONFERENCE CALL

Prepared Remarks From:

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THIRD-QUARTER 2016 FINANCIAL RESULTS CONFERENCE CALL, OCTOBER 26, 2016 PREPARED REMARKS

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OPERATOR:

Hello, and welcome to the Robert Half third-quarter 2016 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 get started, I would like to remind everyone 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.

Now, let's discuss Robert Half's third-quarter 2016 results. Revenues for the quarter were \$1.339 billion, up 2 percent from the third quarter one year ago. Income per share was 71 cents, compared to 73 cents in last year's third quarter. Cash flow from operations was \$153 million, and capital expenditures were \$20 million in the third quarter.

We paid our stockholders a quarterly cash dividend of \$0.22 per share on September 15, for a total cash outlay of \$28 million. We also repurchased 1.2 million Robert Half shares during the quarter, at a cost of \$46 million. We have 7.5 million shares still available for repurchase under our board-authorized stock repurchase plan.

We saw solid demand in the third quarter, particularly for our accounting and finance-related professional staffing and consulting services. Our Accountemps and Robert Half Management Resources staffing divisions and Protiviti reported the highest year-over-year revenue gains. Our international operations also posted strong results.

Unlevered return on equity for the company remained strong at 33 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

Thank you. As Max mentioned, global revenues were \$1.339 billion in the third quarter. This is up 2 percent from the third quarter one year ago on both a reported and same-day, constant-currency basis.

Let's break this out between our staffing business and Protiviti. Global staffing revenues were up 1 percent in the third quarter on a same-day, constant-currency basis from one year ago. U.S. staffing revenues were \$890 million, roughly flat with last year, and non-U.S. staffing revenues were \$231 million, up 7 percent when adjusted for billing days and currency-exchange rates. We have 326 staffing locations worldwide, including 84 locations in 17 countries outside the United States.

The third quarter had 64.1 billing days, compared to 64.2 days in last year's third quarter. The current fourth quarter has 61.4 billing days, compared to 62.3 days in the fourth quarter of 2015.

In the third quarter, currency-exchange rates had the effect of decreasing reported year-over-year staffing revenues by \$3 million. Exchange rates decreased year-over-year reported staffing growth rates by 0.3 percent.

Third-quarter global revenues for Protiviti were \$217 million, including \$183 million in the United States and \$34 million outside the U.S. Overall revenues for Protiviti were up 8 percent from one year ago on a same-day, constant-currency basis. U.S. revenues were up 6 percent, and non-U.S. revenues were up 17 percent from last year's third quarter. Exchange rates had the effect of decreasing year-over-year Protiviti revenues by \$300,000 in the third quarter and decreasing the year-over-year reported growth rate by 0.2 percent. Protiviti and its independently owned Member Firms serve clients through a network of 75 locations in 25 countries.

Along with our earnings release today, you'll find 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 our U.S. and non-U.S. operations. This is a non-GAAP measure we offer to provide insight into certain revenue trends in our operations.

Gross Margin

Gross margin in our temporary and consulting staffing operations was 37.4 percent of applicable revenues in the third quarter. This is a 10-basis-point improvement from the same period one year ago as higher pay/bill spreads offset slightly lower temp-to-hire conversion revenues.

Third-quarter revenues for our permanent placement operations were 9.4 percent of consolidated staffing revenues, which is down from last year's 10.0 percent. This modest mix shift caused overall staffing gross margin to decrease by 20 basis points versus one year ago, to 43.3 percent.

Gross margin for Protiviti was \$67 million in the third quarter, or 30.9 percent of Protiviti revenues. Last year, third-quarter gross margin for Protiviti was \$66 million, or 32.9 percent of Protiviti revenues.

Selling, General and Administrative Costs

Staffing SG&A costs were 32.7 percent of staffing revenues in the third quarter, compared to 32.1 percent in the third quarter one year ago.

SG&A costs for Protiviti in the third quarter were 17.9 percent of Protiviti revenues versus 17.2 percent of Protiviti revenues in the same period last year.

Operating Income

Operating income from our staffing divisions was \$118 million in the third quarter, producing an operating margin of 10.5 percent. This compares to an operating margin of 11.5 percent in last year's third quarter. Our temporary and consulting staffing divisions reported \$98 million in operating income, resulting in an operating margin of 9.6 percent.

Operating income for our permanent placement division was \$20 million in the third quarter, producing an operating margin of 19.3 percent.

Third-quarter operating profit for Protiviti was \$28 million, yielding an operating margin of 13.0 percent.

Accounts Receivable

Accounts receivable were \$743 million at the end of the third quarter. Implied days sales outstanding (DSO) was 50.5 days.

Upgraded Infrastructure

During the quarter, we successfully implemented a new front-office CRM system for all U.S. staffing branches and a new project management system for Protiviti. The conversions went smoothly, and the related disruption and out-of-pocket costs were at the low end of our previous range. We estimate that revenues and EPS for the quarter were impacted by \$9 million and \$0.05 per share, respectively.

Guidance

Before we move to fourth-quarter guidance, I'd like to talk about the monthly trends we saw in the third quarter — and thus far in October.

Globally, year-over-year revenue growth rates for our temporary and consulting staffing divisions decelerated during the third quarter, and we exited the quarter with September revenues roughly flat versus the prior year, compared to a 2 percent increase for the full quarter. Revenue growth for our staffing and consulting services in the first two weeks of October was down 1.5 percent compared to the prior year.

Global permanent placement revenue growth rates also decelerated during the first part of the third quarter, with September down 4 percent compared to the 5 percent decline for the full quarter. For the first three weeks of October, permanent placement revenues increased 1 percent compared to the same period last year.

All of these trends I described have been normalized for billing days and currency.

As you know, we hesitate to read too much into these numbers as they represent very brief periods of time.

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

- Revenues: \$1 billion, 250 million to \$1 billion, 310 million
- Income per share: \$0.60 to \$0.66

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. The U.S. economy added fewer jobs in September than economists had expected, and the unemployment rate ticked up slightly to 5.0 percent. Unemployment levels in the professional fields we serve remain much lower than the overall U.S. rate, but we do continue to see our clients taking longer to make hiring decisions. We have talked about this longer time frame on prior calls. Internationally, we continued to see solid growth in many countries, most notably Germany.

Businesses' appetite for specialized talent in areas important to their growth and profitability remains intact. For computer systems design and related services, for example, the average unemployment rate in the United States is 2.3 percent. Overall, the average unemployment rate for college-degreed workers 25 or older is now 2.5 percent. Employers continue to encounter a widening skills gap in key areas, and they need help finding professionals who are a fit with their needs and work environment.

We were pleased with the results for Protiviti. Protiviti has been doing solid business in all of its practice areas, and it currently works with 70 percent of Fortune 100 companies. Their sweet spot, of course, is teaming with clients to protect and enhance enterprise value by identifying, anticipating and solving critical business problems.

At this time, 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.

