Q4 2016 CONFERENCE CALL

Prepared Remarks From:
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January 26, 2017

Robert Half®

FOURTH-QUARTER 2016 FINANCIAL RESULTS
CONFERENCE CALL, JANUARY 26, 2017
PREPARED REMARKS

OPERATOR:

Hello, and welcome to the Robert Half fourth-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.

As is our custom, I would like 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.

Now, let's review our fourth-quarter results. Quarterly revenues were $1.265 billion, down 1 percent on a same-day, constant-currency basis and down 3 percent on a reported basis from the year-ago period. Income per share was 61 cents. Cash flow from operations was $82 million in the fourth quarter and capital expenditures were $20 million.

We returned $28 million to our shareholders during the quarter through a $0.22 per share cash dividend. We also repurchased 1.1 million Robert Half shares for $51 million. We have 6.4 million shares available for repurchase under our board-approved stock repurchase plan.

These results were within the range of guidance we provided last quarter.

Robert Half continued to benefit from a tightening job market and solid service demand domestically and in our non-U.S. markets during the fourth quarter. International staffing operations performed particularly well, and Protiviti also reported year-over-year revenue gains.

For a while now, we've highlighted on these calls our unlevered return on equity, which remained strong during the fourth quarter at 29 percent.

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

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

Revenues
Thank you, Max. As just noted, global revenues were $1.265 billion in the fourth quarter. This is down 3 percent from the fourth quarter of 2015 on a reported basis, and down 1 percent on a same-day, constant-currency basis.

Fourth-quarter staffing revenues were down 2 percent on a same-day, constant-currency basis. U.S. staffing revenues were $845 million in the fourth quarter, down 4 percent on a same-day basis. Non-U.S. staffing revenues were $219 million, up 5 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 fourth quarter had 61.4 billing days, compared to 62.3 days in the fourth quarter one year ago. The current first quarter has 63.4 billing days, compared to 62.7 days in the first 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.

Currency-exchange rates had the effect of decreasing reported year-over-year staffing revenues by $6 million in the fourth quarter, which decreased year-over-year reported staffing growth rates by 0.6 percent.

Global revenues for Protiviti were $201 million in the fourth quarter, with $170 million coming from revenues in the United States and $31 million from revenues outside the United States. Protiviti revenues were up 5 percent year over year on a same-day, constant-currency basis.

U.S. Protiviti revenues were up 5 percent from the prior year on a same-day basis, and non-U.S. revenues were also up 5 percent. Exchange rates had the effect of decreasing year-over-year Protiviti revenues by $1 million in the fourth quarter and decreasing the year-over-year reported growth rate by 0.5 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 was 38.0 percent of applicable revenues in the fourth quarter. This is a 70 basis-point improvement from the same period one year ago, and relates primarily to higher pay/bill spreads and lower

insurance and payroll tax costs. Our fourth quarter results include $4.3 million in workers' compensation credits, pursuant to third-party actuarial reviews of our workers' compensation accruals.

Fourth-quarter revenues for our permanent placement operations were 8.9 percent of consolidated staffing revenues, which is down 30 basis points from last year's fourth quarter. Together with temporary and consulting gross margin, overall staffing gross margin improved 50 basis points versus one year ago, to 43.5 percent.

Fourth-quarter gross margin for Protiviti was $57 million, or 28.3 percent of Protiviti revenues. Gross margin one year ago for Protiviti was $62 million, or 32.0 percent of Protiviti revenues.

Selling, General and Administrative Costs
Staffing SG&A costs were 33.6 percent of staffing revenues in the fourth quarter versus 32.5 percent in the previous year's fourth quarter. We ended 2016 with 12,800 full-time employees in our staffing divisions, flat with the prior year.

SG&A costs for Protiviti were 18.3 percent of Protiviti revenues in the fourth quarter compared to 18.0 percent of Protiviti revenues in the year-ago period. We ended 2016 with 4,000 full-time Protiviti employees and contractors, up 5 percent from the prior year.

Operating Income
Operating income from our staffing divisions was $105 million in the fourth quarter, down 11 percent from the prior year. Operating margin was 9.8 percent. Our temporary and consulting staffing divisions reported $91 million in operating income, a decrease of 9 percent from the prior year. This resulted in an operating margin of 9.4 percent. Operating income for our permanent placement division was $14 million in the fourth quarter, down 22 percent from the prior year and producing an operating margin of 14.4 percent. Fourth-quarter operating profit for Protiviti was $20 million, a decrease of 26 percent from the prior year. This produced an operating margin of 10 percent.

Accounts Receivable
At the end of the fourth quarter, accounts receivable were $703 million. Implied days sales outstanding (DSO) was 50.6 days.

Guidance
Before we move to first-quarter guidance, let's review the monthly revenue trends we saw in the fourth quarter of 2016 and so far in January, all adjusted for currency.

During the quarter, average daily revenues for our temporary and consulting staffing divisions were essentially flat with the immediately preceding third quarter. In years past, we often had sequential growth during this period. Accordingly, on a year-over-year basis, our growth rates were negative and became slightly more negative as the quarter progressed. We exited the quarter down 2.5 percent versus the prior year, compared to a 1.8 percent decline for the full quarter. Revenue growth for the first two weeks of January was down 2.6 percent compared to the prior year. Global permanent placement negative revenue growth rates were fairly consistent during the quarter, with December revenues down 4.2 percent versus a 4.9 percent decline for the full quarter. So far in January, permanent placement revenues are down 18.8 percent compared to the same period last year.

This information is designed to offer a glimpse into trends we saw during the fourth quarter and in January. But, as you know, we hesitate to read too much into these numbers as they represent very brief periods of time, and they cover holiday periods, which can be volatile.

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

- Revenues: $1 billion, 250 million to $1 billion, 310 million
- Income per share: $0.55 to $0.61

The midpoint of our guidance implies year-over-year revenue declines of 2 percent on both a reported and same-day, constant-currency basis (including Protiviti) and an EPS decline of 9 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 ended the year with annual revenues that once again surpassed $5 billion and, in fact, reached an all-time high for Robert Half. We saw solid demand across the board for our professional staffing and consulting services, although clients were a little more cautious during the quarter, particularly in December.

All indications are that the U.S. job market continues to tighten. Unemployment for college-degreed workers 25 years and older is just 2.5 percent today. This is placing pressure on the labor supply, particularly at higher skill levels. And the number of temporary workers as a percentage of the overall U.S. workforce remains near an all-time high, a sign employers are building flexible staffing options into their human resources plans with increasing frequency. We're also encouraged by recent data from the National Federation of Independent Business that showed that, while hiring levels did not increase in the fourth quarter, small business optimism reached its highest level since December 2004.

Outside the United States, we also see improving markets. Our international staffing operations had a solid fourth quarter.

As we look at the coming year, we are optimistic about the technology investments we've made, which are designed to foster and accelerate continued innovation. In 2016, we migrated our global staffing teams to a new unified front-office CRM system, and we moved Protiviti's North American operations to a new resource management system.

Going forward, we will continue to expand our client- and candidate-facing digital functionality. We've already introduced new online services, including the ability to search candidate profiles on our websites. To serve up the best matches, we've developed intelligent matching algorithms based on nearly 70 years of placement experience. And we're constantly improving those algorithms through machine learning.

We offer innovative matching technology to find temporary and full-time job candidates with the right skills, but technology alone can't produce the right fit. There are many steps in the staffing and onboarding processes, including assessing the chemistry and business-culture fit between the employer and the job candidate and, in the case of temporary assignments, the person's availability. Our major competitive advantage lies in the combination of technology and personal service that we provide because it gives our clients the best opportunity to avoid costly and disruptive staffing mistakes and find the right person every time for their business needs.

Finally, a few closing notes about Protiviti, which had a solid fourth quarter. We are optimistic about the considerable opportunities in the year ahead for this business. Protiviti has focused on diversifying its service offerings, developing and growing a loyal client base, and hiring and rewarding great talent — all with excellent results. This business is seeing solid demand across all practice areas right now.

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.