Robert Half®

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Financial Results Conference Call

Prepared Remarks From:

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Second-Quarter 2024 Financial Results
Conference Call, Prepared Remarks
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OPERATOR:

Introduction

M. Keith Waddell, President and Chief Executive Officer, 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.

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

For the second quarter of 2024, companywide revenues were $1.473 billion, down 10 percent from last year's second quarter on both a reported and as adjusted basis.

Net income per share in the second quarter was $0.66, compared to $1.00 in the second quarter one year ago.

Client and candidate caution continues to impact hiring activity and new project starts as macroeconomic and interest rate uncertainty persist. Second-quarter revenues and earnings were within our guidance range. Protiviti posted strong results, led by U.S. growth in revenues and segment income both on a sequential and year-on-year basis.

We remain confident in our ability to navigate the current climate and optimistic about our growth prospects, built on our industry-leading brand, people, technology and unique business model that includes both professional staffing and business consulting services.

Cash flow from operations during the quarter was $142 million. In June, we distributed a 53 cent-per-share cash dividend to our shareholders of record, for a total cash outlay of $55 million. Our per-share dividend has grown 11.5 percent annually since its inception in 2004. The June 2024 dividend was 10.4 percent higher than the prior year. We also acquired 900 thousand Robert Half shares during the quarter for $60 million. We have 9.1 million shares available for repurchase under our board-approved stock repurchase plan.

Return on invested capital for the Company was 18 percent in the second 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 $1.473 billion in the second quarter.

On an as adjusted basis, second-quarter talent solutions revenues were down 14 percent year over year. U.S. talent solutions revenues were $751 million, down 15 percent from the prior year's second quarter. Non-U.S. talent solutions revenues were $235 million, down 10 percent year over year. We conduct talent solutions operations through offices in the United States and 17 foreign countries.

In the second quarter, there were 63.5 billing days, compared to 63.3 billing days in the same quarter one year ago. The third quarter of 2024 has 64.1 billing days, compared to 63.1 billing days during the third quarter of 2023.

Currency exchange rate fluctuations during the second quarter had the effect of decreasing reported year-over-year total revenues by $6 million — $5 million for talent solutions and $1 million for Protiviti.

Contract talent solutions bill rates for the second quarter increased 3.1 percent compared to one year ago, adjusted for changes in the mix of revenues by functional specialization, currency and country. This rate for the first quarter was also 3.1 percent.

Now let’s take a closer look at results for Protiviti. Global revenues in the second quarter were $487 million: $399 million of that is from the United States, and $88 million is from outside the United States. On an as adjusted basis, global second-quarter Protiviti revenues were down 1 percent versus the year-ago period. U.S. Protiviti revenues were up 3 percent, while non-U.S. Protiviti revenues were down 16 percent. Protiviti and its independently owned Member Firms serve clients through locations in the United States and 29 foreign countries.

Gross Margin

Turning now to gross margin: In contract talent solutions, second-quarter gross margin was 39.3 percent of applicable revenues, versus 39.9 percent in the second quarter one year ago. Conversion revenues (or contract-to-hire) were 3.4 percent of revenues in the quarter, compared to 3.7 percent of revenues in the quarter one year ago.

Our permanent placement revenues in the second quarter were 13.3 percent of consolidated talent solutions revenues, versus 13.0 percent in the same quarter one year ago. When combined with contract talent solutions gross margin, overall gross margin for talent solutions was 47.4 percent, compared to 47.7 percent of applicable revenues in the second quarter last year.

For Protiviti, gross margin was 22.5 percent of Protiviti revenues, compared to 22.9 percent of Protiviti revenues one year ago. Adjusted for the amount of deferred compensation that is completely offset by investment income related to employee deferred compensation trusts (the “Deferred Compensation Investment Income Offset”), gross margin for Protiviti was 23.2 percent for the quarter just ended, compared to 24.0 percent last year.

Selling, General and Administrative Costs

Enterprise SG&A costs were 34.0 percent of global revenues in the second quarter, compared to 33.1 percent in the same quarter one year ago. Adjusted for the Deferred Compensation Investment Income Offset, enterprise SG&A costs were 33.2 percent for the quarter just ended, compared to 31.6 percent last year.

Talent solutions SG&A costs were 43.1 percent of talent solutions revenues in the second quarter, versus 40.7 percent in the second quarter of 2023. Adjusted for the Deferred Compensation Investment Income Offset, talent solutions SG&A costs were 41.9 percent for the quarter just ended, compared to 38.7 percent last year.

Second-quarter SG&A costs for Protiviti were 15.6 percent of Protiviti revenues, compared to 15.1 percent of revenues for the same quarter last year.

Segment Income

Operating income for the quarter was $76 million. Adjusted for the Deferred Compensation Investment Income Offset, combined segment income was $92 million in the second quarter. Combined segment margin was 6.2 percent. Second-quarter segment income from our talent solutions divisions was $55 million, with a segment margin of 5.5 percent.

Segment income for Protiviti in the second quarter was $37 million, with a segment margin of 7.7 percent.

Income from investments held in employee deferred compensation trusts

Our second-quarter 2024 income statement includes $16 million as income from investments held in employee deferred compensation trusts. This is completely offset by an equal amount of additional employee deferred compensation costs, which are reflected in SG&A expenses and direct costs. As such, it has no effect on our reported net income.

Tax Rate

Our second-quarter tax rate was 29 percent, compared to 30 percent one year ago.

Accounts Receivable

At the end of the second quarter, accounts receivable were $893 million, and implied days sales outstanding (DSO) was 54.6 days.

Guidance

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

Contract talent solutions exited the second quarter with June revenues down 13 percent versus the prior year, compared to a 14 percent decrease for the full quarter. Revenues for the first two weeks of July were down 14 percent compared to the same period last year.

Permanent placement revenues in June were down 3 percent versus June 2023. This compares to a 12 percent decrease for the full quarter. For the first three weeks in July, permanent placement revenues were down 17 percent compared to the same period in 2023.

We provide this information so you have insight into some of the trends we saw during the second quarter and into July. 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 third-quarter guidance:

- Revenues: $1.39 billion to $1.49 billion
- Income per share: $0.53 to $0.67
- Our Q3 EPS estimate includes a restructuring charge of 8 cents per share related to Protiviti International. This includes $5.7 million charged to SGA and income tax charges of $2.5 million. Keith will provide additional information on this in a moment.

Guidance Assumptions

Midpoint revenues of $1.44 billion are 9 percent lower than the same period in 2023 on an as adjusted basis.

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

Revenue growth, year-over-year, as adjusted:				
Talent solutions:	Down	12%	to	16%
Protiviti:	Down	1%	to up	2%
Overall:	Down	7%	to	11%
Gross margin percentage:				
Contract talent:		38%	to	41%
Protiviti (as adjusted for the deferred compensation investment income offset):		24%	to	26%
Overall:		39%	to	41%
SG&A as percent of revenues, adjusted for the deferred compensation investment income offset:				
Talent solutions:		41%	to	43%
Protiviti:		16%	to	18%
Overall:		33%	to	35%
Segment income:				
Talent solutions:		4%	to	6%
Protiviti:		7%	to	9%
Overall:		5%	to	7%
Tax Rate:		31%	to	33%
Shares:			102 to 103 million	

2024 capital expenditures and capitalized cloud computing costs: $80 million to $100 million, with $25 to $35 million in the third 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 Chief Executive Officer, Robert Half:

Thank you, Mike.

Client budgets remain constrained, and candidates are reluctant to change jobs. This subdues short-term demand and elongates sales cycles. However, job openings are well above historical highs and indicative of pent-up future demand. As business confidence improves, hiring urgency returns, project demand accelerates, deferred backlogs and growth initiatives are re-prioritized, and labor churn normalizes. This puts pressure on client resources that are often already stretched and creates hiring and consulting demand that traditionally leads to very strong gains for us in the early part of growth cycles.

While progress on inflation and economic momentum stalled during the first quarter of this year, positive trends re-emerged in the second quarter, which should be more conducive for higher business confidence levels and overall sentiment going forward.

We continue to invest in technology and innovation to fuel our core business, which combines the skills, judgment and expertise of our specialized talent solutions professionals with world-class AI tools that leverage our proprietary data assets. We recently upgraded the candidate discovery experience on our website to transparently display the ratings of our recruiters for all AI-matched candidates we have previously placed or interacted with. This is an industry first that tangibly demonstrates the benefits of our combined “Recruiter plus AI” strategy, which our clients highly value.

We are very pleased with Protiviti’s results for the quarter, based on broad strength in each of its solutions areas. Gross margin and segment income both exceeded expectations, growing more than 250 basis points sequentially. Additional improvement is expected in the third quarter — the result of continued revenue strength combined with close control over resource costs and staff utilization rates. Protiviti’s prospects and pipeline remain very strong — a testament to its ability to increasingly gain share in a competitive consulting market.

As noted previously, during the third quarter Protiviti will transition its Mainland China operations to an independently owned Member Firm to optimize local revenue opportunities, including state-owned enterprises. This will result in a restructuring charge of 8 cents per share.

We have weathered many economic cycles in the past, each time emerging to achieve higher peaks. Aging workforce demographics and clients’ desire for flexible resources and variable costs are expected to benefit us for years to come. With our current business portfolio of talent solutions and consulting, we are even more confident about our future as macro confidence returns.

We will continue to invest in our people, our technology, our brand and our business model to strengthen our ability to connect candidates to meaningful work and provide clients with the talent and subject matter expertise they need to confidently compete and grow.

Finally, we’d like to thank our employees across the globe, whose commitment to success made possible a number of new accolades. Robert Half again ranked No. 1 on Forbes’ list of America’s Best Professional Recruiting Firms, and our people-first culture was reflected in our selection as one of Fortune’s Best Workplaces for Millennials, Forbes’ Best Employers for Diversity, and — just yesterday — Forbes’ Best Employers for Women.

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 Chief Executive Officer, 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.