KFORCE®

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Q3 2021 CONFERENCE CALL

Prepared remarks from:
David L. Dunkel, Chairman and CEO
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KFORCE

THIRD QUARTER 2021 FINANCIAL RESULTS
CONFERENCE CALL, NOVEMBER 1, 2021
PREPARED REMARKS

Disclaimer

All statements in these remarks, other than those of a historical nature, are forward-looking statements including, but not limited to, statements regarding the performance of technology-focused businesses, the secular drivers of technology, the pace of digital transformation, the Firm's opportunity to continue investing in its future growth, returning capital to its shareholders including the intent and ability to declare and pay quarterly dividends, and the Firm's guidance for the fourth quarter of 2021. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Factors that could cause actual results to differ materially include the following: business conditions, growth rate in temporary staffing and the general economy; competitive factors; risks due to shifts in the market demand; a reduction in the supply of consultants and candidates or the Firm's ability to attract and retain such individuals; the success of the Firm in attracting and retaining its management team and key operating employees; the impacts (direct and indirect) of COVID-19 on our business, our consultants and employees, and the overall economy; changes in the service mix; ability of the Firm to repurchase shares; the occurrence of unanticipated expenses; the effect of adverse weather conditions; changes in our effective tax rate; changes in government regulations, laws, orders, guidelines and policies that impact our business and our ability to comply with the same; risk of contract performance, delays or termination or the failure to obtain new assignments or contracts, or funding under contracts; ability to comply with our obligations in a remote work environment; changes in client demand and our ability to adapt to such changes; our ability to continue to perform under the government-sponsored COVID-19 related initiatives; continued performance of and improvements to our enterprise information systems; impacts of outstanding litigation or other legal matters, including the risk factors and matters listed from time to time in the Firm's reports filed with the Securities and Exchange Commission, including, but not limited to, the Firm's Form 10-K for the fiscal year ending December 31, 2020, as well as assumptions regarding the foregoing. The terms "should," "believe," "estimate," "expect," "intend," "anticipate," "foresee," "plan" and similar expressions and variations thereof contained in this press release identify certain of such forward-looking statements, which speak only as of the date of this press release. As a result, such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Future events and actual results may differ materially from those indicated in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements and the Firm undertakes no obligation to update any forward-looking statements.

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DAVID L. DUNKEL, CHAIRMAN AND CEO

Good afternoon. I would like to remind you that this call may contain certain statements that are forward-looking. These statements are based upon current assumptions and expectations and are subject to risks and uncertainties. Actual results may vary materially from the factors listed in Kforce's public filings and other reports and filings with the Securities and Exchange Commission. We cannot undertake any duty to update any forward-looking statements. You can find additional information about this quarter's results in our Earnings Release and our SEC filings. In addition, we have published our prepared remarks within the Investor Relations portion of our website.

We are very pleased that revenue and earnings per share both meaningfully exceeded our range of guidance for the third quarter, driven again by the strong performance of our Technology business. The nearly 30% year-over-year growth rate in our Technology business continues to be among the best in class in our industry. The exceptional growth rate in Q3 of this year follows on market leading performance in 2020, where we saw only minimal revenue declines in technology during the height of the pandemic. Strikingly, technology revenues are up nearly 24% from Q3 2019 levels. It is clear to us that we have been successful at continuing to capture meaningful market share.

The foundation for our current performance was built during the multi-year strategic journey that began more than 10 years ago to focus our business on providing high-end domestic technology services to innovative and industry leading companies. While this journey has neither been easy nor perfect, we believe our strategic actions are the foundation of our success.

The driver to our strategy was the recognition of the strategic role technology would play in all functional areas within an enterprise, which has played out to an even greater degree than we had expected. There is simply no other market we would want to be focused in other than the domestic technology market as it has, in our view, the greatest prospects for sustained profitable revenue growth.

Concurrently, we continue to make progress in our objective of migrating our FA business toward higher-end skillsets that are more synergistic with our technology offerings.

With our revenues now concentrated approximately 85% in technology, coupled with a complementary finance and accounting footprint, we are ideally positioned.

During the lowest points of the COVID-19 crisis, we identified several opportunities to assist our clients in providing resources to help key areas of relief efforts associated with the pandemic. The revenue streams from these projects provided us an important bridge to navigate through the pandemic. Not only did they allow us to retain the existing infrastructure in our

business, but they provided an opportunity to increase investments that we believe will further enable sustained above market growth in the future. Our objective was to replace these non-strategic revenue streams, as they declined, with a much higher quality technology revenue stream. Evident in our results is that we have executed consistent with our expectations and I am grateful for our team's efforts in supporting these critical COVID initiatives while also driving considerable success in our Technology business. As we stated on the second quarter earnings call, we have not further pursued these opportunities.

We continue to make progress in positioning our Firm to have a more flexible hybrid work environment through our Kforce Reimagined initiative. Joe Liberatore, President, will elaborate further in his remarks.

Our business continues to generate significant operating cash flows and we were again active in repurchasing our stock during the third quarter. The strength in our balance sheet and availability under our new $200 million Credit Facility allows us to be opportunistic with respect to returning additional capital to our shareholders while continuing to evaluate potential acquisitions. However, our belief is that a focus on organic growth provides us the best opportunity for long-term success. Accordingly, we will continue to apply very stringent cultural and financial criteria to any potential transaction as we are sensitive to the distraction an acquisition could create. Given our confidence in our future growth prospects, we expect to remain active in repurchasing our shares at current stock price levels.

As we look ahead, we are incredibly excited about our strategic position. I am so proud, in particular, of our highly tenured, strong management team and dedicated associates. We have the right team in place to capture additional market share within what we believe will be a continued strong demand environment for our services. It's our belief that the pandemic has exponentially elevated the imperative for companies to rapidly digitize their businesses, transform business models and drive productivity gains through technology investment.

I will now turn the call over to Joe Liberatore who will give greater insights into our performance, recent operating trends, and other insights into our operating environment. Dave Kelly, CFO, will then give greater detail on our financial results and position as well as our financial expectations and guidance for the fourth quarter.

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JOSEPH LIBERATORE, PRESIDENT

Thanks to all of you for your interest in Kforce.

We continue to see unprecedented demand across our business and, accordingly, are experiencing record levels of revenue growth. Our exceptional overall performance continues to be propelled by the strength in our $1.3 billion high-end Technology business, which grew in excess of 8% sequentially and nearly 30% organically year-over-year in the third quarter.

The operating trends we are experiencing in our Technology business have been impressive as front end KPI's and new assignment starts have been extremely strong and the duration of our assignments continues to increase, as well. Encouragingly, our new assignment starts were stronger in September versus the full quarter and have strengthened further thus far in October. Consultants on assignment increased 7% from the end of the second quarter to the end of the third quarter and has grown nearly 28% over the third quarter of 2020. We are seeing strength across virtually every industry we serve. We believe these trends are great indicators of our ability to continue delivering sequential billing day growth and sustaining our elevated year-over-year growth rates in the fourth quarter on an increasingly difficult comp.

While the clear driving factor to our Technology growth is the number of consultants on assignment, we continue to see increases in our average bill rates, which grew 1.2% sequentially and 2.4% off already elevated prior year levels to approximately $82 per hour. There has been much discussion and headlines surrounding recent talent shortages in other staffing end markets, principally in lower skilled areas that Kforce does not support, as well as wage pressures at a more macro level. The reality for us is that we have been navigating a supply constrained environment for over a decade in our Technology business. So, this is not new for us and we believe that we are well equipped to address these challenges and believe that, over time, wage pressures serve as a tailwind to our business through future bill rate increases.

We continue to see the acceleration of critical technology initiatives within our clients in areas such as cloud, mobile, data analytics, project, and program management, with a strong focus geared towards improving the consumer's digital experience. The investments we have made in front-end technology and process over the last several years have matured our capabilities to efficiently provide clients with highly diverse top talent, at scale, in a now boundaryless environment across the US.

A significant accelerant to our overall Technology growth has been the investments we've made and will continue to make, in our managed teams and solutions capabilities to meet the evolving needs of our clients. We have continued to add highly talented experienced resources to our team and are investing to arm them with state-of-the-art tools and technology. Data points that support the success we are experiencing in this higher value capability are an increase in average bill rates of 11%

from 2018 levels and a 25% increase in average assignment length from approximately 8 to 10 months over the same period. We feel extremely confident in the positioning of our technology business and the ability to continue expanding our market share beyond traditional areas of technology staffing.

Given the momentum we have carried into the fourth quarter we expect revenues in our Technology business may grow approximately 29% on a year-over-year basis, which would represent in excess of 30% growth over the fourth quarter of 2019. We are clearly continuing to take market share.

Our FA flex revenues were down 41.3% year-over-year in the third quarter, which included an expected $44 million year-over-year decline from our support of initiatives tied to the economic fallout and recovery efforts from the COVID-19 pandemic. These revenue streams were approximately $8 million in the third quarter and we expect them to further decline to approximately $4 million in the fourth quarter. We made a conscious decision to not pursue business beyond our existing commitments once it became clear that the recovery was well under way, and this has allowed us to focus our efforts on our forward-looking FA strategy.

Our non-COVID FA Flex business declined 1% sequentially but grew 4% year-over-year. As we mentioned previously, we are transitioning our FA business towards more highly skilled assignments, such as analytics and decision-support roles, that are less susceptible to technological change and automation and more synergistic with our Technology footprint. We will continue to support lower-end skill sets for certain clients where we have long-standing relationships that are strategically important to Kforce's overall ongoing success. We have seen natural assignment ends of lower skilled FA roles in 2021 where strategic client relationships do not exist and expect that to continue in the fourth quarter. We expect our non-COVID FA revenues to be down in the mid-single digits on a year-over-year basis and when combined with the expected COVID revenue decline, total FA Flex may be down over 30% year-over-year in the fourth quarter.

Direct Hire revenues in the third quarter increased nearly 11% sequentially and approximately 55% year-over-year as the macro-economic environment has continued to improve. While this is not an area of heavy investment for us, it remains an important part of our portfolio to meet our clients' needs. We expect that Direct Hire revenues may see a typical seasonal sequential decline but to increase over 30% year-over-year in the fourth quarter as clients continue to demonstrate a high degree of confidence in the recovery through the addition of full-time staff.

We are continuing to invest in strategic initiatives and technologies that best position our Firm for long term, sustainable profitable growth. From a technology perspective, our fully integrated CRM and TRM systems are cloud-based and seamlessly integrate with other Microsoft product offerings. Investments to further develop these tools along with enhancing capabilities

in other areas are continuing. We believe great opportunity still exists to further enhance productivity, which will drive future profitable growth.

With great anticipation from our people, we announced in September that we signed a lease for our future corporate headquarters, which we anticipate occupying in the fourth quarter of 2022. This new space will be modern, open and technology enabled to provide a flexible environment for our people to work effectively. Our approach to the design of our corporate headquarters is consistent with the approach we are taking in each of our field offices across the US. We are referring to this new era of Kforce's work environment as "Office Occasional" whereby our people will have maximum flexibility and choice in designing their workdays that is rooted in trust and supported by integrated technology aligned with our evolved operating model. We will have a remote first approach but encourage our people to leverage physical office spaces, when desirable, for activities best done through in-person, active collaboration such as training, team building, and client and candidate interactions. We expect our work environment to further improve the retention of our most talented associates as well as attract highly talented new associates.

Productivity metrics continue to improve across our tenured associates. We have continued to make measured investments in internal talent to take advantage of the heightened market demand while also investing in technology to further drive productivity improvements. Overall capacity remains sufficient to support our growth and should improve due to our continued investments in technology and greater enablement of communication and collaboration tools and processes that have been so successful for us since we transitioned to remote work last March.

We have supported and retained our best people, structurally reduced our fixed costs, and are refining a more scalable operating model that we expect will result in positive operating leverage as our solid growth continues to compound, and we reimagine the future of how we work. Our customer and employee satisfaction levels continue to be at an all-time high. We continue to carry the highest Glassdoor rating among our peers and maintain a world class net promoter score from our clients and consultants and are the most recognized firm by technology consultants per SIA.

I greatly appreciate the trust our clients, consultants and candidates have placed in Kforce. Our teams continue to inspire me daily as we work together creating something beyond special for tomorrow and into the future to position Kforce as the most desirable destination for top professionals in our industry. I will now turn the call over to Dave Kelly, Kforce's Chief Financial Officer.

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DAVID M. KELLY, CHIEF FINANCIAL OFFICER

We are very pleased that third quarter revenues of $402.7 million exceeded the high end of our guidance. Profitability levels also exceeded the high end of our guidance with earnings per share of $0.96 in the third quarter.

Our gross profit percentage in the quarter of 29.6% increased 120 basis points year-over-year as a result of a greater mix of Direct Hire revenues and an increase in Flex gross profit margins, which improved 50 basis points year-over-year, to 27.2%.

Flex margins in our Technology business were up 40 basis points year-over-year. As pay rates have increased over the past year, we have been able to effectively pass these increases through to our clients. Bill/pay spreads have improved slightly year-over-year partly as a result of our success growing higher margin managed teams and solutions revenues. We are also benefiting from slightly lower benefits costs.

Flex margins in FA expanded 130 basis points year-over-year primarily due to the decline in lower margin COVID projects in Q3 2021 compared to a year ago as well as Flex margin gains in our non-COVID FA business as a result of the strategic shift to higher skilled roles. This strategic shift has allowed us to increase the average Flex margin for new assignments starts in our non-COVID FA business in the third quarter of 2021 by approximately 160 basis points versus the pre-pandemic comparable period in 2019.

As we look forward to Q4, we expect spreads in our Technology business to be stable with third quarter levels, though overall Technology margins will be lower due to the usual seasonal holiday impacts of fewer billing days and increased paid time off. In FA, overall margins are expected to have moderate expansion from our repositioning efforts and the further decline of lower margin COVID projects. Should we begin seeing wage inflation within our consultant population, which we have not yet experienced in any meaningful way, we are confident in our ability to work with our clients to appropriately align bill rates.

Overall SG&A expenses increased as a percentage of revenue by 130 basis points year-over-year principally due to higher levels of performance-based compensation as a result of our record setting revenue growth and continued technology investments. This trend is expected to continue for the remainder of the year.

Our third quarter operating margin of 7.3% exceeded the top end of our guidance by 30 basis points. We believe the improving quality of our revenue stream; continued productivity improvements and ongoing lower structural operating costs will collectively allow us to continue to invest aggressively in our business to drive sustained above market growth rates while driving continued improvements in profitability levels.

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On the second quarter earnings call, we mentioned that we anticipated to sustain and potentially accelerate investments in talent attraction within our Technology business and certain technologies to take advantage of the strong technology demand environment and to enhance our longer-term growth prospects. The impact from these incremental investments is expected to last through the first half of 2022, while additional leaseback costs from our recently sold headquarters will cease at the end of 2022. We had previously stated that as revenues reach $400 million quarterly, that operating margin would be at least 7.8%. We expect to return to this margin trajectory by Q2 2022 and also to derive annual savings of approximately $1.5 million as we transition to our new headquarters at the end of 2022.

We continue to investigate additional opportunities to improve our operating model to drive additional future profitability improvements. We have had great success in rebuilding our front office technology processes and tools over the past five years, and as we mentioned last quarter, we believe an equal opportunity exists to drive significant efficiencies in the back office and dramatically improve how our back office supports the Firm. We are still in the preliminary phases of assessing the opportunities in this area. This transformation is expected to be planned in phases and involve up-front costs in each phase. With that said, once complete, this investment, along with other areas of opportunity will enhance our ability to generate double digit operating margins as we grow. We look forward to sharing further details on potential timing and impact on future calls.

Our effective tax rate in the third quarter was 27.5%, which was consistent with our expectations.

EBITDA in the third quarter was $33.8 million, which represents a 9.2% increase from the third quarter last year. Despite the payment of approximately $19 million related to payroll tax deferrals stemming from the CARES Act of 2020, operating cash flows were $23.4 million in the third quarter. We returned $20.2 million in capital to our shareholders via $14.9 million in share repurchases and $5.3 million in dividends. We ended the third quarter with $15.6 million in net cash.

The number of billing days are 61 days in the fourth quarter of 2021, which is three fewer than the third quarter of 2021 and one less day than the fourth quarter of 2020. We expect Q4 revenues to be in the range of $394 million to $402 million and earnings per share to be between 92 and one dollar. Gross margins are expected to be between 29.0% and 29.2%, while Flex margins are expected to be between 26.8% and 27.0%. SG&A as a percent of revenue is expected to be between 22.1% and 22.3% and operating margins should be between 6.4% and 6.8%. We expect the seasonal impact to operating margins in the fourth quarter to be 70 basis points on 3 less billing days sequentially. Weighted average diluted shares outstanding are expected to be approximately 20.9 million for Q4. The effective tax rate is expected to be 19.5% and reflects an anticipated tax benefit from the vesting of restricted stock that typically takes place in the fourth quarter. The reduced tax rate will provide approximately 10 cents of incremental earnings per share and is reflected in our guidance.

Our guidance does not consider the potential negative impact on the demand environment from a significant increase in COVID-19 variant cases, the effect, if any, of charges related to any one-time costs, costs or charges related to any pending tax or legal matters, the impact on revenues of any disruption in government funding, or the Firm's response towards regulatory, legal, or future tax law changes.

Overall, we believe we are in an exceptional place. We believe the strategic decision to focus our business in providing domestic technology solutions is paying dividends. The range of guidance, at the mid-point, implies organic growth in our Technology business of approximately 29%. We couldn't be more excited about our future growth prospects with 85% of our revenues focused in technology and an FA business that is more directly focused on complimenting those technology efforts. Our shareholders continue to benefit from strong performance and efficient capital allocation, as exhibited by a return on invested capital of approximately 40%. Our predictable cash flows provide significant future flexibility to make investments and continue returning capital to our shareholders.

On behalf of our entire management team, I'd like to extend a sincere thank you to our teams for their efforts in outperforming market expectations through the adversity and uncertainty of the past year and a half and continuing to build on that success.

DAVID L. DUNKEL, CHAIRMAN AND CEO

Thank you for your interest in and support of Kforce. I would like to say thank you to each and every member of our field and corporate teams for the incredible efforts, and to our consultants and our clients, for your trust in Kforce in partnering with you and allowing us the privilege of serving you. We delivered another quarter of exceptional results and look forward to talking with you again after the fourth quarter in early 2022.