KFORCE℠

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Q4 2021
CONFERENCE CALL

Prepared remarks from:
Joseph J. Liberatore, President and CEO
David M. Kelly, EVP and Chief Financial Officer
Kye Mitchell, EVP and Chief Operations Officer

Disclaimer

All statements in these remarks, other than those of a historical nature, are forward-looking statements including, but not limited to, the Firm's guidance for the first quarter of 2022, its financial expectations for the year ended December 31, 2022, and statements regarding the performance of technology-focused businesses, the secular drivers of technology demand, the pace of digital transformation, the Firm's positioning to continue providing exceptional results and returns, 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. 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; the migration of our FA business towards more highly skilled assignments; 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 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; 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.

FOURTH QUARTER 2021 FINANCIAL RESULTS
CONFERENCE CALL, FEBRUARY 7, 2022
PREPARED REMARKS

JOE LIBERATORE, PRESIDENT AND CEO

Good afternoon. 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 our 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.

Before I provide commentary on our fourth quarter and full year performance, let me first cover a couple of items.

2021 was a record performance year for Kforce. I would like to thank all our associates for their fortitude, creativity, innovation and resilience operating in these unprecedented times. Thank you for your daily efforts to have a meaningful impact on all the lives we serve, uniting professionals to achieve success through lasting personal relationships.

In the fourth quarter we announced Dave Dunkel's transition to Chairman at the end of 2021 after also holding the CEO post for the past 40 years. We are fortunate to have Dave's continued involvement strategically as we reshape where and how work will be performed in the future. I have been blessed to work side by side with Dave for the past 34 years. I am humbled and honored with the opportunity to uphold the standard of excellence Dave established. Our entire team's heartfelt thanks and appreciation goes out to Dave for his leadership, mentorship and support. Due in large respect to his leadership, our values which are foundational to Kforce's strategy are extremely well entrenched. Our executive leadership team has extraordinary depth and tenure to lead our team forward, and our future prospects have never been brighter in our 60 plus year history.

Joining us on the call today is Kye Mitchell, our Chief Operations Officer. Kye is a 30-year veteran in the professional staffing and solutions space who joined the Kforce family in 2005 through the acquisition of VistaRMS. Kye has responsibility for developing and executing the strategic vision across all our service offerings, which has contributed greatly to Kforce's successes. Kye will give insights into our performance and recent operating trends. Dave Kelly, Kforce's CFO will then provide greater detail on our financial results as well as our future financial expectations.

We have driven significant, strategic change at Kforce over the last decade and our Firm is ideally positioned to continue to provide exceptional results and returns to our shareholders. We have concentrated Kforce's strategic focus and now have 85% of our business focused on providing technology talent solutions to innovative and industry leading companies for their operations exclusively in the United States. This percentage is expected to meaningfully increase as we exit 2022 given that

our Technology business continues to grow at multiples of market rates. This strategic shift was bold and transformative but well-founded in our belief as we exited the financial crisis that technology was going to be at the epicenter of every business strategy. This has played out to an even greater degree than we imagined as the pandemic accelerated what we already saw unfolding. The benefit of this strategic shift and the benefit of our focus on organic growth without the distraction of acquisition integration can be seen in the exceptional results that we have delivered over the last several years. While the broader economy has experienced fits and starts pertaining to the pandemic and the related supply chain and labor issues, we continued to gain momentum. We have further advanced our strategic initiatives including reshaping our client portfolio, investing in our managed teams and solutions offerings, pursuing skilled areas in our FA business which are synergistic with our Technology offering and aligning our sales and delivery teams to our revised focus. The backbone supporting enterprise-level change is the strength of our leaders, which we have supported through enhanced development and training. In addition to these strategic initiatives, we are equipping our teams with innovative and state-of-the-art tools and technologies.

Our industry leading growth rate, coupled with a debt-free balance sheet and strong predictable cash flows, continue to allow us to invest in our future and return capital to our shareholders through share repurchases and a substantial dividend, which we have once again increased. Our path forward is clear and will remain consistent with the principles under which we have been operating so successfully.

As to our results, we again delivered record revenues in the fourth quarter of $410.4 million, which grew nearly 18% year over year and meaningfully exceeded the top end of our guidance. Earnings per share of 98 cents grew 14% on a year-over-year basis.

Fourth quarter results put a solid exclamation point on a tremendous 2021 for Kforce. We were successful at delivering record revenues of nearly $1.6 billion, which grew nearly 14% year-over-year. Perhaps the most exciting aspect of our 2021 results was the 22% full year organic growth we delivered in our Technology business. Earnings per share of $3.54, also a Kforce record, grew 35% year-over-year. I am incredibly grateful for the tenacity and perseverance of our entire team over the past two years. Under the most extraordinary circumstances, you have embraced change and challenges, both personally and professionally, and helped deliver the most exceptional results in our Firm's history.

We continue to make significant progress in positioning Kforce as the destination for top talent during a time where there is great disruption in the labor markets. Our future work environment will provide our people with maximum flexibility and choice in designing their workdays that is grounded in our trust in them and supported by technology. We will have a remote first approach to support the life/work balance our team has become accustomed to as we moved through the pandemic. Our people will leverage physical office spaces, when desirable, for activities best done through in-person, active

collaboration such as training, team building, client and candidate interactions. We are accomplishing this through our Kforce Reimagined initiative.

In servicing our customers, 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. We have the right team in place to capture additional market share within what we believe will be a continued extraordinarily 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 Kye Mitchell, our Chief Operations Officer, who will give greater insights into our fourth quarter performance, recent operating trends, and other insights into our operating environment.

KYE MITCHELL, EVP AND CHIEF OPERATIONS OFFICER

I really appreciate the opportunity to speak to this broader audience about Kforce's operations. It's clear to us that our Kforce team's hard work and dedication is leading to our current exceptional results. I am very grateful to our team and would like to take this opportunity to thank them for their incredible efforts.

Let me begin by providing some additional perspective on the strength of our outstanding fourth quarter revenue growth. Total revenues grew 17.8% year-over-year on a billing day basis. However, this overall growth rate includes the impact of declines in COVID-related revenues, which were substantially higher during the height of the pandemic. Excluding the impact from that reduction, revenues were up 7.7% sequentially and 26.7% year-over-year, per billing day. The COVID-related revenues were always expected to decline but provided a bridge for continued investment in our Technology business. The growth we are experiencing in our Technology business reflects the benefit of our decision to pursue the temporary COVID-related revenue stream.

Let me provide some color on the performance of our Technology business. We achieved record levels of organic revenue growth of 32% on a year-over-year basis in the fourth quarter and grew nearly 8% sequentially on a billing day basis. This growth was on top of our strong performance during the pandemic, where our Technology revenues were essentially flat, and we outperformed virtually every one of our peers. Our Technology business grew nearly 33% organically over the fourth quarter of 2019, pre-pandemic, which we believe exceeds the growth rate of every public comparable company. We believe our growth speaks volumes to the secular drivers and demand for technology talent. Our clients are reluctant to lose key resources from Kforce – even during challenging macro-economic environments – because our highly skilled consultants are working on mission critical projects.

The operating trends we are seeing in our Technology business have been impressive. Front end KPI's and new assignment starts have been at historically high levels. The average duration of Technology assignments continues to lengthen and, just as we saw in 2020, we experienced much lower seasonal year-end assignment ends than we have historically seen. These trends provide us great momentum going into the new year. It is also a great indicator of our ability to sustain elevated year-over-year growth rates on an increasingly difficult comp.

Not only did we see increased growth rates in the number of Technology consultants on assignment, we continue to see increases in our average bill rates, which grew 3.8% year-over-year 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 we do not support, as well as wage pressures at a more macro level. The reality for us is we have been navigating a supply constrained environment for over a decade in our Technology business. Our consistent strong results over this period reflect our ability to successfully navigate these shortages and access the highly skilled talent our clients need. With the environment moving to less geographic boundaries, our talent pool of candidates is increasing, which is positive for our business. We also believe that wage inflation serves as a tailwind for us through future bill rate increases as our clients prioritize procuring the talent necessary to further their technology initiatives despite any increasing costs.

We are seeing strength across virtually every industry and across all geographies. We continue to see the acceleration of critical technology initiatives within our clients in areas such as cloud, digital, UI/UX, data analytics, project, and program management. Our clients are leaning into digital not just for the consumer experience, but also to improve the employee experience. Technology and business strategy are continuing to intertwine, which is ideal for us given our technology focus. 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 resources to our team to support the demand we are experiencing for end-to-end solutions and teams. We feel extremely confident in the positioning of our Technology business.

We expect first quarter revenues in our Technology business may grow to the mid-20% range on a year-over-year basis, with a low single-digit sequential decline due to seasonal year-end assignment ends. Thus far in the first quarter, demand remains strong.

With respect to our FA business, overall flex revenues were down 28.9% year-over-year on a billing day basis in the fourth quarter, including an expected $23.8 million year-over-year decline from our support of initiatives tied to COVID-19 pandemic as previously mentioned. These revenue streams were approximately $5 million in the fourth quarter, and we expect them to decline to nominal levels in the first quarter.

Flex revenues in our remaining FA business grew 8.3% sequentially and declined 0.2% year-over-year, per billing day. We made good progress transitioning our FA business towards more highly skilled assignments that are less susceptible to automation and fit better with our Technology footprint as is evidenced by bill rates increasing nearly 10% year-over-year. We will continue to support lower-end skill sets for certain strategic clients with long-standing relationships. We have seen natural assignment ends in lower skilled FA roles in 2021 where we chose to no longer support that business. We expect that effort to be materially complete in the first quarter of 2022. Our non-COVID FA revenues are expected to be down in the high teens on a year-over-year basis given the repositioning of the business. When combined with the expected COVID revenue decline, overall FA Flex revenues may be down close to 40% year-over-year in the first quarter.

Direct Hire revenues in the fourth quarter increased nearly 13% sequentially and approximately 62% year-over-year as the macro-economic environment has continued to improve. We expect that Direct Hire revenues may see a sequential decline in the first quarter but may increase slightly more than 30% year-over-year 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 products. Investments to further develop these tools along with enhancing capabilities in other areas is continuing. We have made measured investments in adding talent to areas with the greatest expected return, but don't expect to make significant investments in the near-term. We believe great opportunities still exist to further enhance productivity.

We have supported and retained our best people and, as Joe mentioned, have made meaningful changes to provide our employees flexibility and choice in how we work. In partnership with our Chief Marketing and Talent Officer, Andy Thomas, an important measurement for me as COO is our reputation for delivering quality services to our clients and consultants. I am pleased we continue to have the highest Glassdoor rating among our peers and maintain a world class net promoter score from our clients and consultants. We were also named the most recognized firm by technology consultants per SIA.

I am grateful for the trust our clients, consultants and candidates have placed in Kforce. Our teams continue to inspire me every day as we work together to position Kforce as the destination employer in our industry. I will now turn the call over to Dave Kelly, Kforce's Chief Financial Officer.

FOURTH QUARTER 2021 FINANCIAL RESULTS
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DAVID M. KELLY, EVP AND CHIEF FINANCIAL OFFICER

We are extremely pleased with our performance in 2021 as full year revenues of approximately $1.6 billion and earnings per share of $3.54 increased approximately 14% and 35%, respectively, year-over-year. Our strategic position and the momentum we are carrying into 2022, against what we believe will continue to be a strong demand environment, has positioned us well to continue delivering significantly above-market revenue growth.

Fourth quarter revenues of $410.4 million exceeded our guidance, growing nearly 18% year-over-year and approximately 24% since the fourth quarter of 2019, pre-pandemic. Earnings per share of $0.98 in the fourth quarter improved 14% year-over-year.

Our gross profit percentage in the quarter of 29.2% increased 80 basis points year-over-year due to slightly improving flex margins and a greater mix of Direct Hire revenues.

Flex margins in our Technology business were up 30 basis points year-over-year in the fourth quarter. 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 also benefited from the growth in our managed teams and solutions offering, which typically carries a higher gross margin, at both existing and new clients. The continued demand for managed services should continue to bring stability to gross margins even in the face of increasing pay rates.

Flex margins in FA expanded 80 basis points year-over-year in the quarter due to a combination of the decline in lower margin COVID projects in Q4 2021 compared to a year ago and margin improvements in our non-COVID FA business due to 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 fourth quarter of 2021 by approximately 180 basis points versus the fourth quarter of 2019. In addition, average bill rates in our non-COVID FA business have improved 8% in the fourth quarter of 2021 versus the fourth quarter of 2019.

As we look forward to Q1, we expect spreads in our Technology business to be stable with fourth quarter levels, though overall Technology margins will be lower due to seasonal payroll tax resets. In FA, spreads are expected to have moderate expansion. We have not seen meaningful wage inflation within our consultant population, but should that change, we are confident in our ability to work with our clients to appropriately align bill rates. Flex margins will be negatively impacted in the first quarter by approximately 110 basis points relative to the fourth quarter due to seasonal payroll tax resets.
Overall SG&A expenses increased as a percentage of revenue by 170 basis points year-over-year principally due to higher levels of performance-based compensation as a result of our exceptional revenue growth and higher costs related to an

accrual for the expected settlement of a lawsuit. The accrual related to the expected legal settlement impacted SG&A percentage in the fourth quarter by $2.4 million, or roughly 60 basis points. SG&A expenses in Q1 are expected to be down from fourth quarter levels due to the decline in legal accruals and seasonally lower performance-based compensation given annual compensation plan resets, which will be partially offset by usual seasonal payroll tax resets.

Our fourth quarter operating margin was 6.0%, which was negatively impacted by 60 basis points because of the aforementioned legal accrual. Excluding this impact, operating margins fell within our expectations. Our compensation plans are structured to provide meaningful compensation to our talent at extremely high performance levels. While this creates higher than normal SG&A costs at fourth quarter growth rates, we believe this structure serves as yet another retention incentive for our most talented and productive people and benefits our shareholders over the long term.

Our effective tax rate in the fourth quarter was 11.6%, which was significantly lower than our expectations due primarily to a larger tax benefit upon the vesting of restricted stock as a result of an increase in our stock price. The lower effective tax rate positively contributed nine cents to earnings per share in the fourth quarter, which offset the negative impact of nine cents as a result of the $2.4m legal accrual.

We generated $126 million in EBITDA in 2021, which represents an increase of 30.2% year-over-year. Operating cash flows were $72.9 million for 2021, which included a negative impact from the payment of payroll taxes deferred pursuant to the CARES Act from 2020 of approximately $19 million. We returned $74.5 million, nearly 100% of operating cash flows for the year, in capital to our shareholders through $20.1 million in dividends and $54.4 million in share repurchases. Our return on invested capital was approximately 45% during the fourth quarter.

We ended the fourth quarter with $3.0 million in net debt. Our business continues to generate significant operating cash flows and we were again active in repurchasing nearly $10 million in stock during the fourth quarter. Since 2010, we have returned in excess of $700 million in capital to our shareholders in the form of dividends and share repurchases, which has represented approximately 80% of the capital we generated over that same time period. The strength in our balance sheet and availability under our $200 million Credit Facility allows us to be opportunistic in returning additional capital to our shareholders while continuing to evaluate potential acquisitions. With that said, our belief is that a focus on organic growth provides us the best opportunity for long-term success. Thus, we will continue to apply very stringent cultural and financial filters to any transaction. Given our confidence in our future growth prospects, we expect to remain active in repurchasing our shares at current stock price levels. To support our intentions going forward, our Board of Directors recently approved an increase in share repurchase authorizations under our existing repurchase program to $100 million.

As an additional sign of confidence going into 2022, our Board also approved a roughly 15% increase to our quarterly dividend effective in the first quarter. This increase will bring our dividend yield to slightly less than 2% at current stock price levels.

With respect to first quarter guidance, the number of billing days are 64 days in the first quarter of 2022, which is three more than the fourth quarter of 2021 and one more day than the first quarter of 2021. We expect Q1 revenues to be in the range of $403 million to $411 million and earnings per share to be between $0.72 and $0.80. Gross margins are expected to be between 28.1% and 28.3%, while Flex margins are expected to be between 25.7% and 25.9%. SG&A as a percent of revenue is expected to be between 22.2% and 22.4% and operating margins should be between 5.4% and 5.8%. As a reminder, first quarter operating margins are typically impacted by approximately 150 basis points due to seasonal impacts of annual payroll tax resets. This also impacts earnings per share by approximately 21 cents. Weighted average diluted shares outstanding are expected to be approximately 20.7 million for Q1. The effective tax rate is expected to be 26.5%.

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.

We are excited about our prospects for growth in 2022 given the significant momentum we have created in 2021. We expect this growth to result in continued expansion of our operating margins and significant increases in earnings per share while allowing continued investments in technology and our people, both of which we believe benefit our shareholders in the long-term.

To assist you in better understanding our expectations of growth and profitability, we have provided you with some additional information in our press release. Based upon current market conditions, we expect full year revenue growth in our Technology business should be at least 15%, more than twice current market expectations. Revenue for our FA business will likely decline more than 25% due to the net impact of revenue declines from business that we are no longer pursuing due to our strategic migration to higher end skill sets and from the elimination of COVID-19 revenue streams. This would result in total revenues of at least $1.7 billion, of which greater than 85% will be Technology as we exit 2022. We also expect 2022 earnings per share to be $4.20 or greater and for operating margins to be at least 7.0% for the year.

Overall, we believe we are in an exceptional place. We believe the strategic decision to focus our business in providing domestic technology talent solutions is paying dividends. We couldn't be more excited about our future growth prospects. Our shareholders continue to benefit from strong performance and efficient capital allocation. Our predictable cash flows provide significant future flexibility to make investments and continue returning capital to our shareholders.

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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 two years and continuing to build on that success in 2022.

JOE LIBERATORE, PRESIDENT AND CEO

Thank you for your interest in and support of Kforce. I would like to say thank you to every Kforcer 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. 2021 was a year of exceptional results and we look forward to talking with you again after the first quarter of 2022.