



We Love What We Do. We Love Who We Serve.®

Q1 2022 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 this press release, 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 strength in the secular drivers of demand in 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 second quarter of 2022 and expectations for the full year of 2022. 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; our ability to comply with government regulations, laws, orders, guidelines and policies that impact our business; 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 actual or potential litigation or other legal or regulatory matters or liabilities, 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, 2021, 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 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.

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.

We delivered another quarter of exceptional performance in the first quarter as both revenue and earnings per share meaningfully exceeded the top end of our guidance. It has been widely publicized that the COVID pandemic accelerated many years of technology adoption and advancements. This has resulted in a corresponding acceleration in demand for highly skilled talent to assist companies across every industry to rapidly digitize business models. The strength in our financial performance continues to be led by strong growth in our Technology business. As our business continues to become more highly concentrated in technology, it is also driving significant increases in profitability levels, which meaningfully accelerated and were at Firm record levels for the first quarter. Kye Mitchell and Dave Kelly will speak to our results in greater detail.

Since growth resumed shortly after the onset of the pandemic, we have, quarter after quarter, improved our performance and raised our own internal expectations of what is possible. The improvement in our performance starts with our strategic positioning over the past 10 years. My thanks go out to our leadership team and associates for continuing to stay true to our strategic vision and for their relentless execution. Strategy without execution matters very little and I'm proud of our team's consistent execution and unwavering commitment to serving our clients and candidates. We are clearly capturing market share and are growing at over triple the market rate in our Technology business in the strongest demand environment I have ever experienced in my 34 years at Kforce. Our team continues to have a meaningful impact on all the lives we serve and achieve success through lasting personal relationships, and this is translating into our superior results.

The tumultuous macro environment continues to be shaped by the highest levels of inflation that we've seen in over forty years, the tragic and senseless humanitarian crisis occurring in Ukraine, and further challenges to the supply chain that is already strained by the pandemic. This has raised concern as to the sustainability of growth in our economy as well. In terms of the impact of inflation, while we are certainly experiencing wage and cost pressures, it has thus far provided a further tailwind to our business. Bill rates continue to rise in tandem with pay increases, as our clients continue to understand the need for the critical resources we provide. As to the risk of a U.S. recession, Technology is core to all business strategies regardless of industry. This secular shift began coming out of the dot com era and was further accelerated by mobility and the digital age resulting in our business demonstrating remarkable resilience in not only navigating the most recent recession brought on by COVID but also the Great Recession.

During challenging and uncertain times like these, we are truly fortunate to have a footprint that is 100% domestic-focused with greater than 85% of revenues concentrated in highly skilled technology talent solutions. The war for technology talent is real with far more open jobs than available skilled talent. Our recruiting core competency, focused service offering, and freedom from the distractions of acquisition integration or any non-complementary business has been a true differentiator to our consistent outperformance over the past few years. We have a pristine balance sheet that allows us the ability to both invest in accelerating organic growth and advance our technology platform while also returning capital to our shareholders. We are executing and delivering record levels of performance and are significantly outpacing industry benchmarks. We could not be more excited about our future prospects regardless of the state of the macro-economic environment.

As the business environment continues to open up, so are we, with the opening of our field offices to a new way to do work, which we call Office-Occasional. Our unique environment provides our people with maximum flexibility and choice in designing their workdays that is grounded in our trust in them and supported by technology. We have a remote-first approach to support the life/work balance our team has become accustomed to as we moved through the pandemic. We are an industry leader in the talent solutions space, delivering superior financial results, and are offering maximum flexibility to current and future top talent in designing their workdays. We believe these factors, among others, will position Kforce as the destination for top talent during a time when there is a great disruption in the labor markets.

Our path forward is clear, and we will remain consistent with the principles under which we have been operating so successfully. In servicing our customers, there is simply no other market we would want to be focused in other than the domestic technology talent solutions space as it has, in our view, the greatest prospects for sustained 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.

Kye Mitchell, our Chief Operations Officer, will now 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.

KYE MITCHELL, EVP AND CHIEF OPERATIONS OFFICER

I am incredibly proud of our team's hard work and dedication which led to our exceptional results.

Total revenues grew 13.0% year-over-year with all lines of business showing stronger than expected results. This overall growth rate was negatively impacted by the planned runoff of COVID-related project work we accepted during the pandemic. Excluding the impact of the COVID business, our ongoing business grew more than 21% year over year. We continue to deliver exceptional organic growth fueled by our Technology business and complemented by our FA business.

In Technology, we delivered another excellent quarter of organic year-over-year revenue growth of nearly 27% off a more difficult prior-year comp. We have been successful at driving high levels of compounded growth in our Technology business as indicated by our organic growth of 35% over the first quarter of 2020, which was the last quarter not materially impacted by the pandemic. Our business performed exceptionally well leading up to and throughout the challenging macro-economic environment caused by the pandemic. We believe this is unmistakable evidence that the secular demand drivers in the technology talent solutions space are more important to our long-term success than any changes to the economic environment. Our growth has meaningfully exceeded the industry growth benchmarks over the last 15 years. Furthermore, we believe our growth rates have been consistently near or at the top of the industry since the pandemic began. Understandably, our clients are reluctant to lose key resources – even during challenging macro-economic environments – because our highly skilled consultants work on mission-critical projects.

The operating trends we are seeing in our Technology business have remained strong. Our front-end KPIs and new assignment starts are at historically high levels. The average assignment duration continues to expand, and consistent with what we saw in Q1 2021, we again experienced much lower seasonal year-end assignment ends than we have historically seen. These indicators show our ability to sustain elevated year-over-year growth rates even with increasingly difficult comps.

As Joe alluded to in his remarks, we saw an acceleration in our average bill rates, which grew nearly 4% sequentially and just over 6% year-over-year to approximately \$85 per hour. In addition, the average bill rate on our new assignments in the first quarter improved nearly 7% compared to the fourth quarter of 2021 which is a good indicator of what we should expect in the future as older assignments end. More importantly, the elevated bill rates have not impacted the strength in the demand environment for highly skilled talent, which we believe supports the criticality of these resources to our clients' strategic priorities. With the environment moving to less geographic boundaries, our talent pool of candidates is increasing, which is also a positive for our business.

We continue to see an acceleration of critical technology initiatives with our clients in areas such as cloud, digital, UI/UX, data analytics, project, and program management. Our clients are leaning into digitalization not just for the consumer experience, but also to improve the employee experience. Our conversations suggest that clients must and will continue to make significant technology investments to remain competitive.

Technology and business strategy are continuing to intertwine. A continued accelerant to our overall Technology growth has been the investments we continue to make in our managed teams and project solutions capabilities to meet evolving client demand. We have continued to add talented resources to our team to support the growth we are experiencing.

We expect second-quarter revenues in our Technology business may continue to grow in the mid-20 % range on a year-over-year basis, despite increasingly challenging prior year comps, and in the mid to high single digits sequentially.

Our overall FA business, which declined 33% year-over-year, also exceeded our expectations. The growth rate was negatively impacted, as expected, by the falloff of our support of initiatives tied to the COVID-19 pandemic. These revenues contributed a negligible amount of revenue in the first quarter of 2022 and \$24.0 million in the first quarter of 2021. Excluding the \$24 million impact, our overall FA business declined 5.8% year-over-year because of our strategic repositioning efforts.

Our teams have embraced and executed our FA strategic repositioning, moving us to more highly skilled assignments. These assignments are less susceptible to automation and fit better with our Technology footprint. Our strategy has contributed to the success of the Firm, including FA average bill rates increasing approximately 8% sequentially and 21% year-over-year to over \$43 per hour, excluding any impacts from COVID-related project work. While we continue to refine the positioning of our FA business, non-COVID growth rates will be negatively impacted by the assignment

falloff of business we no longer support but contributed revenues last year. As of the second quarter, the falloff is essentially complete, and the remaining business is providing stable revenues. When combined, we expect our overall FA revenues to decline in the low to mid-single digits sequentially and may be down approximately 45% year-over-year in the second quarter. As a reminder, the second quarter of 2021 included \$34.8 million of COVID project-related revenue.

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 and enhance capabilities continue. We have made measured investments in adding talent to areas with the greatest expected return, with a concentrated focus on our Technology business, and will continue to take a similar approach in the near term. We maintain sufficient capacity to sustain our current growth rates and believe opportunity still exists 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 our new Office Occasional work environment. Our Glassdoor rating continues to be the highest amongst our peers indicating our people love this new model. We have continued to maintain a world-class net promoter score from our clients and consultants.

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

DAVID M. KELLY, EVP AND CHIEF FINANCIAL OFFICER

I'm pleased to provide some additional color on our excellent results and prospects. First-quarter revenues of \$417.0 million, a Kforce record, grew 13% year-over-year and were 24% higher than the pre-pandemic levels of Q1 2020. Earnings per share of \$0.93 in the first quarter improved 50% year-over-year and reflect the improving quality of our revenue stream and concentration of technology revenues.

We saw sequential improvements in both flex margins and overall gross margins in the first quarter as a result of both stronger than anticipated direct-hire revenues and higher flex margins in both our Technology and FA businesses. Gross margins increased 250 basis points year-over-year to 29.7% in the first quarter. While we don't expect continued growth, at this pace, in direct-hire revenues, which constitute less than 4% of total revenues, the benefit in a greater percentage of Technology revenues is notable and provides significant margin stability given both our ability to manage bill/pay spreads and the increasing desire by our clients to engage our firm for project-based work.

Flex margins in our Technology business improved 150 basis points year-over-year and bill/pay spreads have been stable, while wages have accelerated. We are also benefiting from a lower percentage of overall payroll taxes and health insurance costs than we have seen historically due to Technology being a higher percentage of overall revenues. Our ability to drive more revenue on average from each billable consultant through higher bill rates and longer assignment duration contributes to the reduced percentage of these costs and results in a structurally higher-quality revenue stream that we expect to continue going forward.

Flex margins in our FA business expanded 400 basis points year-over-year due primarily to a decline in the lower margin COVID project work and improved bill rates and spreads resulting from the strategic shift to higher-skilled roles.

As we look forward to Q2, we expect spreads in our Technology business to be stable with first-quarter levels, coupled with seasonal improvements from payroll tax resets. In FA, spreads are expected to expand slightly due to the runoff of lower-margin opportunities in the first quarter of 2022. Overall Flex margins will be positively impacted in the second quarter from reduced payroll taxes by approximately 50 basis points relative to the first quarter.

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 exceptional financial performance. We expect SG&A expenses as a percent of revenue to decline in the second quarter relative to the first quarter as a result of increased leverage from our revenue growth and lower payroll taxes from the seasonal annual first quarter resets.

Our first-quarter operating margin was 6.7%, which significantly exceeded the high end of our guidance as a result of the better than anticipated gross profit margins.

Our effective tax rate in the first quarter was 27.1%.

Our business continues to generate significant operating cash flows, which were nearly \$39 million in the first quarter, and our accounts receivable portfolio continues to perform exceptionally well. We returned \$16.2 million in capital to our shareholders through \$6.1 million in dividends and \$10.1 million in share repurchases. Our return on invested capital was approximately 48% in the first quarter.

The strength in our balance sheet and availability under our \$200 million credit facility allows us to be opportunistic in returning significant additional capital to our shareholders while continuing to evaluate potential tuck-in acquisitions. With that said, our belief is, and our results suggest, 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. We have consistently returned greater than 75% of operating cash flows annually to our shareholders over the past decade. The strength and predictability of our platform allows us to do so while still providing ample capital to invest in the growth of our organic revenue stream.

With respect to guidance, the second quarter has 64 billing days, which is the same number as the first quarter of 2022 and the second quarter of 2021. We expect Q2 revenues to be in the range of \$436 million to \$444 million and earnings per share to be between \$1.15 and \$1.23. Gross margins are expected to be between 30.4% and 30.6%, while Flex margins are expected to be between 27.6% and 27.8%. SG&A as a percent of revenue is expected to be between 22.2% and 22.4% and operating margins should be between 7.7% and 8.1%. Second-quarter operating margins are projected to benefit approximately 70 basis points sequentially from reductions in payroll taxes. This translates into a sequential earnings per share benefit of approximately 11 cents. Weighted average diluted shares outstanding are expected to be approximately 20.7 million and our effective tax rate is expected to be 26.0%.

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 tremendously excited about our future prospects given the momentum that we have continued to build. We expect our continued significantly above-market growth will also 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. Last quarter during our earnings release, we indicated that we expected that 2022 revenues would be at least \$1.7 billion and that earnings per share would be at least \$4.20. Should the demand environment remain strong and full-year trends remain stable with first-quarter results and second-quarter guidance, we would expect to significantly exceed those levels for the full 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 huge dividends. We couldn't be more excited about our future prospects. Our shareholders continue to benefit from our strong performance and efficient capital allocation.

On behalf of our entire management team, I'd like to extend a sincere thank you to our teams for their efforts in continuing to outperform market expectations.

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 your extraordinary 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 look forward to talking with you again after the second quarter of 2022.