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

Q2 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 third 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," "in our view" 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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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.

I am pleased with our solid overall performance in the second quarter, which was fueled again by significant sequential and year-over-year growth in our Technology business. There is no doubt that the macro environment has become a bit cloudier over the last several months with persistent historically elevated levels of inflation, which has been at least partially fueled by stimulus activities throughout the pandemic and the continued crisis in Ukraine, significantly rising interest rates and ongoing supply-chain challenges. These and other factors have raised concern as to the pace of overall economic growth.

We believe that we are ideally positioned heading into this uncertain macro landscape, however it ultimately plays out. Our confidence is grounded in our strategic position with nearly 90% of our business concentrated in providing high-end technology talent solutions to a diversified set of world-class companies, in attractive end markets, a debt-free balance sheet and improved profitability levels that gives us the flexibility to continue investing in our business. To that end, it is important to remember that flex revenues in our Technology business, which comprised roughly 50% of overall revenue at the time, was only down 7% during the 2008/2009 financial crisis, and in 2020 comprised 75% of overall revenue and was virtually flat when economic growth abruptly contracted. The growing strength in the secular drivers of demand in technology, which the pandemic has only accelerated further, gives us the confidence that we are relatively insulated during adverse economic times. Technology remains core to all business strategies regardless of industry and we don't see that changing.

A recent CIO survey conducted by JP Morgan, released in June, indicated that companies continue to expect to invest in their technology initiatives in 2023, and in fact, may look to accelerate investment. Those companies projected to outperform in their respective sectors are dominating digital transformation efforts, which aligns very well with our business and the clients we serve. While there may be pockets of softening in select industries or clients, on the whole, we remain confident.

Our second quarter performance in Technology indicates that we are continuing to capture significant market share. Despite some moderate slowing in our activity levels in the second quarter compared to the historically high demand we were experiencing in 2021 and early 2022, activity levels are largely outpacing pre-pandemic levels.

My sincere thanks go out to our leadership team and associates for continuing to stay true to our strategic vision and for their relentless execution even as they are confronted personally with some of the macro-economic instability. Our team continues to have a meaningful impact on all the lives we serve.

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.

Our plans continue with implementing our hybrid office model that we call office-occasional with the opening of all our field

offices in Q2. 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 are an industry leader in the technology talent solutions space, delivering superior financial results and are offering maximum flexibility supported by state-of-the-art technologies 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.

The strategic decision coming out of the financial crisis to accelerate our focus on Technology has continued to position Kforce as a top performer. 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 strong demand environment for our services.

Kye Mitchell, our Chief Operations Officer, will now give greater insights into our performance and recent operating trends. Dave Kelly, Kforce's Chief Financial Officer will then provide additional detail on our financial results as well as our future financial expectations.

KYE MITCHELL, EVP AND CHIEF OPERATIONS OFFICER

Thank you, Joe.

Our results in the second quarter show continued success as overall revenues grew 8.2% year-over-year. Our planned COVID-related runoff negatively impacted our year-over-year growth rate. Excluding that decline, our overall revenues would have grown 18% year-over-year. Technology continues to be the key driver to our success. We grew our Technology business approximately 7% sequentially and 24% year-over-year off increasingly difficult prior year comps.

We have continued to drive high levels of compounded growth in our Technology business. Our Technology business has grown organically almost 50% over the last two years. This was on top of the revenue stability we experienced throughout the pandemic. As Joe mentioned, our business not only performed exceptionally well leading up to and throughout the 2020 pandemic but also during the 2008/2009 great recession. We believe this demonstrates a stronger correlation of the secular demand drivers in technology to our business, than fluctuations in the macro-economic environment. Our technology growth has exceeded the industry growth benchmarks for over 15 years and has been consistently near or at the top of our industry since the pandemic. Our clients are reluctant to lose key resources, even during challenging macro-economic environments, because of the mission-critical nature of our projects and consultants.

2021 and early 2022 proved to be the strongest demand environment I have seen in my 30-year career in the technology space. Accordingly, our activity levels and trends were also at historically high levels. While our recent operating trends and activity levels have moderated to a degree, demand remains strong and still largely above pre-pandemic levels.

We experienced continued acceleration in our average bill rates, which grew 2.4% sequentially and just over 8% year-over-year to approximately $87 per hour. The elevated bill rates have not impacted the demand environment for highly skilled talent, which we believe supports how critical these resources are to our client's strategic priorities. With less geographic constraints, our talent pool of candidates continues to increase.

We continue to see acceleration of critical technology initiatives with our clients in areas such as cloud, digital, UI/UX, data analytics, project, and program management. Our conversations suggest that clients must and will continue to make significant technology investments to remain competitive. We continue to see solid demand for our managed teams and project solutions capabilities and expect to make continued investments in this strategic offering.

As we exited the second quarter and into the third, we saw continued strength in virtually all industries we support. We have a very diverse client portfolio, servicing 70% of the Fortune 500, and have no significant concentration in any one particular industry. While we may be susceptible to short-term disruption with specific clients within our portfolio or industry-specific dynamics, we expect our diversification to serve our shareholders well over the long term.

We expect third quarter revenues in our Technology business may grow in the mid-teen range on a year-over-year basis on more difficult comps.

Our overall FA business declined 44% year-over-year. The growth rate was negatively impacted, as expected, by declines in COVID-19 revenues. These revenues contributed a trivial amount of revenue in the second quarter of 2022 and nearly $35 million in the second quarter of 2021. Excluding this impact, our overall FA business declined 10.7% year-over-year largely due to our repositioning efforts.

While new assignment starts were down in the second quarter as we continue to reposition the business, we saw an 8% sequential increase and 25% year-over-year increase in our bill rates to over $47 per hour. Due to our continued focus on investments in our Technology business, we expect overall FA revenues to decline in the low double digits sequentially and may be down approximately 35% year-over-year in the third quarter. As a reminder, the third quarter of 2021 included $7.5 million of COVID project revenue. We continue to support our FA business and improve its alignment with our Technology business. However, our near-term expectation is for continued revenue declines in FA.

The investments we continue to make in our strategic priorities along with process improvements to increase productivity levels in our tenured associates provide capacity to continue to grow. We have supported and retained our best people and, as Joe mentioned, we have made significant changes to give our employees flexibility and choice in our new office-occasional work environment. This is reflected in our top-ranked Glassdoor score which includes the highest scores amongst our competitors across all seven measurement categories including areas like diversity and inclusion and culture. I am grateful for the trust our clients, consultants and candidates have in Kforce. I would like to thank our amazing people who continue to deliver our great results. They are the backbone of our success. I will now turn the call over to Dave Kelly, Kforce's Chief Financial Officer.

DAVID M. KELLY, EVP AND CHIEF FINANCIAL OFFICER

Thank you, Kye…

Second quarter revenues of $436.5 million grew 8.2% year-over-year. Earnings per share was $1.30, which included a 14 cent gain recognized as a result of the termination of our outstanding interest rate swaps and reflects an increase of 30% year-over-year.

Gross margins increased 50 basis points year-over-year to 30.0% in the second quarter primarily due to a greater mix of direct hire revenues, as flex gross profit margins were generally stable. We also saw sequential improvement in overall gross profit margins due to strength in direct hire revenues and flex margins due to seasonally lower payroll taxes. While direct hire revenues, which constitute less than 4% of total revenues, are not expected to continue growing at this pace, we believe our nearly 90% concentration in technology revenues is notable and provides significant margin stability due to the desire by our clients to increasingly engage us for projects critical to their ongoing success.

Flex margins in our Technology business have essentially been unchanged over the past year. Top technology talent remains scarce, and we have continued to see wage increases. We have been able to pass through these increases in our bill rates, due to the critical work our consultants perform. We are also benefiting from a lower percentage of overall payroll taxes 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 210 basis points year-over-year due to a decline in the lower margin COVID project work and repositioning efforts.

As we look forward to Q3, overall gross margins are expected to decline due to typical seasonal declines in direct hire revenues and slightly lower technology flex margins. In 2021 and the first half of 2022, we experienced historically high levels of average hours worked by our technology consultants. In the third quarter, we expect to experience a slight decrease in average hours worked due to higher utilization of paid time off during the summer period .

Overall SG&A expenses increased as a percentage of revenue by 100 basis points year-over-year due to a 50 basis point gain recorded in the prior year as a result of the sale of our corporate headquarters, higher levels of performance-based compensation as a result of our strong financial performance, as well as continued high levels of technology investments to support our business going forward. We expect SG&A expenses as a percent of revenue to be fairly stable sequentially and year-over-year.

Our second quarter operating margin was 7.8%, which was slightly improved over the prior year after normalizing for the 50 basis point gain on the sale of our corporate headquarters last year.

Our effective tax rate in the second quarter was 26.3%.

Our business continues to generate significant operating cash flows, which were $32 million in the second quarter, and our accounts receivable portfolio continues to perform exceptionally well. We continue to prioritize the return of capital to our shareholders. During the quarter, we paid $6.1 million in dividends and repurchased $9.3 million in Kforce stock. Our return on invested capital was approximately 48% in the second 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. Given our confidence in our future prospects, we expect to remain active in repurchasing our shares.

With respect to guidance, the third quarter has 64 billing days, which is the same as the second quarter of 2022 and the third quarter of 2021. We expect Q3 revenues to be in the range of $430 million to $438 million and earnings per share to be between $1.03 and $1.11. Our guidance does not consider the potential impact of unusual or nonrecurring items that may occur.

We continue to be excited about our future prospects and believe we are well-situated for the short and long-term. Our financial performance has put us in an ideal position to continue to make incremental investments in our business, both in terms of technology and our people, both of which we believe benefit our shareholders in the long term. During our Q4 2021 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 second-quarter levels, we would expect to meet or exceed those levels for the full year.

Overall, we believe our strategy has put us in an exceptional place, even with the ongoing macroeconomic uncertainties. We believe the strategic decision to focus our business in providing domestic technology talent solutions is paying huge dividends. 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 third quarter of 2022.