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

Q3 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 fourth 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 impact of our joint venture's inability to achieve its financial objectives or changes in valuation assumptions; 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.

JOE LIBERATORE, PRESIDENT AND CEO

Good afternoon. This call contains certain forward-looking statements. 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 overall performance in the third quarter as revenues and earnings per share were near the top end of our guidance, again led by strong sequential and year-over-year growth in our Technology business.

The macro-environment certainly became cloudier in the third quarter, with persistently elevated levels of inflation, and rapidly rising interest rates, which, among other reasons, is impacting prospects for global and domestic economic growth. We mentioned on our prior earnings call that we experienced a degree of moderation in our KPIs towards the end of the second quarter. While trends in the third quarter were below levels experienced in 2021 and the first half of 2022, they remain above pre-pandemic levels. Though certain of our clients have become increasingly cautious as they prepare for the potential of a U.S. recession, the criticality of the projects we are supporting is continuing to drive demand for highly skilled technology talent.

The war for technology talent is real with far more open jobs than available skilled talent. The strength of the secular drivers of demand in technology was accelerated coming out of the Great Recession by mobility, big data, the cloud, and the rapid expansion of consumer-facing technology initiatives. The pandemic has only accelerated the strategic imperative for all businesses to further digitize their business to enhance consumer and employee experiences. These collective technology drivers give us an increased level of confidence in expecting our business to thrive during strong economic times and to be relatively insulated during adverse economic times. Technology is not optional and is core to all business strategies regardless of industry and we don't see that changing. In fact, the CEO of a large trade association representing the technology and engineering industry recently stated that "even if some sectors of the economy soften and pull back in their hiring, demand for tech talent will continue to outstrip supply for the foreseeable future."

With deliberate strategic intent, we have built a solid foundation with nearly 90% of our business concentrated on providing high-end domestic technology talent solutions to a diversified set of world-class companies, in attractive end markets. Our debt-free balance sheet and strong, predictable cash flow give us the flexibility to continue investing to grow our business even in choppier economic times. Due to the strength in the secular drivers of technology services demand and our client portfolio, which is primarily focused on serving Fortune 500 companies, our Technology business has both consistently grown at well-above-market rates during strong economic environments and displayed great resilience through the last two recessions. For additional color, our organic CAGR of nearly 8% since 2007 is significantly above the market rate. During the 2008/2009 Great Recession, flexible revenues in our Technology business comprised roughly 50% of total revenue and declined only 7% in comparison to the 25-30% declines experienced within the general staffing market. In the 2020 pandemic-driven recession, our Technology revenues were approximately 75% of total revenues and were virtually flat in comparison to the general staffing market which experienced 10-15% declines. With 90% of our total revenues now in Technology, we feel extremely well positioned to take advantage of both strong and more challenging market conditions to continue growing market share.

Our plans continue with implementing what we call our office-occasional work environment, and we are extremely excited about the opening of our new state-of-the-art headquarters in Tampa tomorrow. Our unique work 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 exceptional financial results, and are offering maximum flexibility to our people. We believe these factors, among others, are positioning Kforce as the destination for top talent.

Our path forward is clear, and we will remain consistent with the principles under which we have been operating so successfully. 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 and are prepared for the long-term and whatever the near-term environment may bring.

My sincere thanks to our highly tenured leadership team and associates for continuing to stay true to our strategic vision and for their relentless execution. Our team continues to have a meaningful impact on all the lives we serve. It was inspiring to see how our teams rallied to support our clients, consultants, and employees that were impacted by Hurricane Ian and for their support of rebuilding the communities around us.

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

Revenues grew 8.7% year-over-year in the third quarter. Normalized for our planned COVID-related runoff, year-over-year growth would have been 10.7%. As expected, our Technology business continues to be the primary driver of our success, with year-over-year growth of 15.8% off increasingly difficult prior-year comps. We are anticipating close to 18% growth for the full year of 2022.

We have continued to drive high levels of compounded growth in our Technology business, with revenues having grown organically 50% over the last two years following resilient top-line growth throughout the pandemic. We believe our strong, consistent performance demonstrates an unmistakable correlation with the secular demand drivers of technology. These drivers are less susceptible to economic fluctuations than most businesses. Our technology growth has meaningfully exceeded the industry growth benchmarks over the last 15 years and has been consistently near or at the top of our industry for the past three years.

As Joe mentioned, our recent operating trends and activity levels have moderated to a degree, but demand remains strong and above pre-pandemic levels. Our clients are reluctant to lose key resources, even during challenging macroeconomic environments, because of the mission-critical nature of our projects and consultants.

Another strong signal we experienced is continued acceleration in our average bill rates, which grew 1.4% sequentially and 8.3% year-over-year to approximately $88 per hour. The continued increase in bill rates reflects the strong demand environment for highly skilled talent and the criticality of these resources to our clients' 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. Conversations with our clients suggest that they will continue to prioritize significant technology investments to remain competitive regardless of the economic environment. Many of our engagements are multi-year initiatives that we expect to continue despite any changes in the macroeconomic environment. Clients continue to look to us to provide managed teams and project solutions engagements. We expect to bring even greater focus in driving disproportionate growth of these engagements as we move into 2023, which will help insulate margins.

Our year-over-year growth was driven by a diverse set of industries. Sequentially, we are still seeing broad-based demand, but with some softness in select clients. We have not yet seen any industry vertical as a whole experience consistent reductions in demand. Rather, even in industry verticals where we have seen softness at particular clients, we have seen other clients actually increase spend and award new projects. We have a very diverse client portfolio of large customers servicing 70% of the Fortune 500, which we believe mitigates our risk as we have no significant concentration in any particular client or industry. While we may be susceptible to short-term disruption with specific clients or industry-specific dynamics, we expect our diversification and concentration in world-class companies to serve our shareholders well over the long term.

We expect fourth-quarter revenues in our Technology business to continue to grow sequentially on a billing day basis and increase in the high single digits on a year-over-year basis.

Our overall FA business declined 28.0% year-over-year. The growth rate was negatively impacted, as expected, by declines in COVID-19 revenues. These revenues contributed nearly $7.5 million in the third quarter of 2021. Excluding this impact, our overall FA business declined 18.7% year-over-year largely due to our repositioning efforts.

While new assignment starts were relatively flat in the third quarter as we continue to reposition the business, we saw a 6% sequential increase and 28% year-over-year increase in our bill rates to over $50 per hour. We expect overall FA revenues to

improve slightly sequentially due to a project in support of Hurricane Ian recovery efforts and decline approximately 29% year-over-year in the fourth quarter. As a reminder, the fourth quarter of 2021 included $4.7 million of COVID project revenue. We continue to support our FA business and improve its alignment with our Technology business.

The investments we continue to make in our strategic priorities along with process improvements to increase productivity levels in our associate population provides capacity to continue to grow. While capacity exists, we have continued to make select investments in associate headcount to drive sustainable growth. We have supported and retained our best people and we have made significant changes to give our employees flexibility and choice in our office-occasional work environment. This is reflected in our top scores amongst our competitors on Glassdoor across all seven measurement categories including areas like diversity, inclusion, and culture.

Kforce has earned Glassdoor's OpenCompany Designation, which recognizes employers that proactively promote and embrace workplace transparency through sharing workplace culture, being responsive to all reviews, and sharing our updates related to DEI and CSR.

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 impressive results. They are the backbone of our success. I will now turn the call over to Dave Kelly, Kforce's Chief Financial Officer. Dave…

DAVID M. KELLY, EVP AND CHIEF FINANCIAL OFFICER

We continue to make progress growing our business and improving profitability levels as third-quarter revenues of $437.6 million grew 8.7% year-over-year and earnings per share of $1.09 increased 13.5% year-over-year.

Gross margins decreased 60 basis points year-over-year to 29.0% in the third quarter primarily due to a decline in flex gross profit margins and a lower mix of direct hire revenues.

Flex margins of 26.0% in our Technology business declined 90 basis points sequentially and on a year-over-year basis. This decline was largely expected due to higher utilization of paid time off by our consultants, slight spread compression, and elevated healthcare costs. Top technology talent remains scarce, and we have seen wage increases fairly consistently throughout the year. Over many years, we have had great success passing through these increases to our clients in our bill rates due to the critical work our consultants perform. This has led to very stable margins in our Technology business. We believe the third quarter decline represents a fluctuation in margins within our typical range, as there are always leads and lags in bill rate and pay rate dynamics.

Flex margins in our FA business expanded 50 basis points sequentially and 240 basis points year-over-year due to a decline in the lower margin COVID project work and repositioning efforts.

As we look forward to Q4, flexible margins in our Technology business, which would typically decline sequentially, are expected to remain at Q3 levels as we recover from the higher-than-normal paid time off impacts in Q3. Overall gross margins are expected to decline due to seasonally lower direct hire revenues. While we believe that clients may be slightly more price sensitive in the current macro environment, we believe our nearly 90% concentration in technology provides relative margin stability over the long term due to the desire by our clients to increasingly engage us for projects critical to their ongoing success.

Overall SG&A expenses as a percentage of revenue decreased by 60 basis points year-over-year mainly as a result of lower incentive-based compensation given significant prior year accelerating growth and real estate savings under our office-

occasional model. The factors are offsetting ongoing investments to improve our back-office productivity. We expect SG&A expenses as a percent of revenue to be flat year-over-year and increase sequentially due to three fewer billing days in the fourth quarter along with continued investments in our business.

Our third quarter operating margin was 7.2%, which was down slightly year-over-year.

Our effective tax rate in the third quarter was 26.8%.

Operating cash flows were $7.3 million and, as expected, were negatively impacted by a $20 million payment to settle benefits owed under a previously terminated executive retirement plan.

Our accounts receivable portfolio continues to perform exceptionally well, and we continue to prioritize the return of capital to our shareholders. During the quarter, we continued to be active in repurchasing $22.5 million of our stock. Given our confidence in our future prospects, we now expect to return nearly 100% of operating cash flows to our shareholders this year through share repurchases and dividends. This compares to historical levels of approximately 75%. Our return on invested capital was approximately 48% in the third 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.

With respect to guidance, the fourth quarter has 61 billing days, which is three fewer days than the third quarter of 2022 and the same as the fourth quarter of 2021. We expect Q4 revenues to be in the range of $414 million to $422 million and earnings per share to be between 88 cents and 96 cents. Our guidance does not consider the potential impact of unusual or nonrecurring items that may occur.

Our financial performance has put us in an excellent position to continue to make incremental investments in our business, which we believe benefits our shareholders in the long term, while also allowing us to improve profitability levels as we grow. 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. The midpoint of our guidance for Q4 indicates that we expect to slightly exceed these levels.

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 and provides us with unique resiliency in whatever may occur in the economy. 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.

Operator, we would now like to turn the call over for questions.