



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

## **Q2 2023 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 backlog of desirable investments that will be prioritized once the macro uncertainties begin to clear, the expected reduction in annual operating costs, the Firm's strong cash flows providing great flexibility to return significant capital to shareholders, the executive leadership team's experience to skillfully navigate the future, the Firm's strategic position and prospects for continuing to deliver above-market performance while continuing to make certain investments, the Firm's positioning to attain double-digit operating margins, and the Firm's guidance for the third quarter of 2023. 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; changes in client demand or our ability to adapt to such changes; a constraint 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; changes in business or service mix; the ability of the Firm to repurchase shares; the occurrence of unanticipated expenses, income, gains or losses; 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, 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; 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 ended December 31, 2022, 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 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.

Our results for the second quarter reflect the continuation of an uncertain economic environment and, we believe, the actions being broadly taken across industries by our market-leading clients to ensure they are prepared for the possibility of a slowdown. This view is informed by our internal metrics, discussions with clients, and other industry and economic data points. There have been wide-spread concerns and, frankly, expectations that the US economy would fall into a recession of uncertain severity since the Federal Reserve began aggressively raising rates in March 2022 to address persistently high inflation. The yield curve continues to be significantly inverted, which has been a very strong indicator of a likely recession going back more than 50 years. We also experienced the collapse of several large financial institutions over this time. Though the pace of hiring has slowed, and we have seen an increasing level of layoffs, the labor markets have continued to be remarkably resilient with continued historically low levels of unemployment. More recently, there have been some indicators

suggesting significant moderation in inflation and the increasing discussion of a possible “soft-landing” to the US economy. While we are not economists, my point in sharing these data points is to articulate the significant uncertainties that exist in the macro-environment. We believe this is causing companies, broadly speaking, to exercise restraint in the number of new technology investments they initiate and to selectively trim existing projects that don’t create an immediate return. The restraint being exercised by companies, generally speaking, including our clients, continued in the second quarter and though we are still seeing new project awards, we have not yet seen any broad change in client mindset. This is reflected in our second quarter results and expectations of performance in the third quarter.

While the Firm continues to operate efficiently due to our focused, technology-centric platform and produce results in our Technology business that are at the top of our class, it became clear to us that we needed to adjust our structural costs to align them with the lower levels of revenue that we are experiencing without compromising investment in key strategic initiatives. While actions that affect our Kforce team are tremendously difficult to make and are never taken lightly, the impact of the macroeconomic uncertainties on our business drove us to take these actions. Dave Kelly, Kforce’s Chief Financial Officer, will provide insights into the costs and benefits associated with these actions in his remarks.

As to our performance in the second quarter, overall revenues were slightly below the low end of our guidance. Despite lower-than-expected revenues, earnings per share was within our range of guidance.

As we look further into the future, we remain steadfast in our beliefs in two areas.

First, we believe that the long-term secular drivers of demand in technology are very much intact and will persist in the future irrespective of how the short-term economic environment plays out. The strength of the secular drivers of demand in technology accelerated significantly coming out of both the Great Recession and the 2020 Pandemic and it remains clear to us that the broad and strategic uses of technology, including the recent headlines that GenAI technologies have garnered, will continue. While clients are acting with heightened caution today, we believe this is resulting in a tremendous backlog of desirable investments that will be prioritized once the macro uncertainties begin to clear. Technology investments are simply not optional in today’s competitive and disruptive business climate. Our core competency is rooted in the ability to identify and provide critical resources, real-time and at scale, to solve business problems for clients in virtually every industry. Our integrated strategy also allows us to be flexible in partnering with our clients to meet their needs as part of a traditional staffing assignment, a managed team or managed project engagement. There is simply no other market we would want to be focused in other than the domestic technology talent solutions space.

Second, we expect the sharpening in our focus to continue to contribute to our market outperformance. We have built a solid foundation at Kforce and are partnering with world-class companies to solve complex problems and help them competitively transform their businesses. Our balance sheet is clean, and we expect this and our strong cash flows to continue providing us great flexibility to return significant capital to our shareholders. We have a solid, highly tenured team in place with the expectation of continuing to capture additional market share. Our Executive Leadership team has been through multiple economic cycles and has the experience to skillfully navigate through whatever may lie ahead.

A reflection of our preparedness is the success of the executive transition plan initiated in December 2021. At that time, our founder Dave Dunkel, announced his retirement as CEO and entered into a multi-year agreement to provide the Firm support in a non-executive employee role, in addition to his continuing role as Board Chairman. The Board of Directors has determined that due to the success of the transition and the confidence it has in the Executive Management team, it is now

comfortable accelerating his transition to a role solely as Board Chairman effective immediately, and that those transition services are no longer necessary. I want to thank Dave for sharing his wisdom and guidance during this transition and I look forward to continuing to engage with Dave and the rest of our Board of Directors.

Our highly experienced management team is navigating through the current macro climate well and we remain very excited about our future prospects. Kye Mitchell, Kforce's Chief Operations Officer, will now give greater insights into our performance and recent operating trends, and Dave Kelly will then provide additional detail on our financial results as well as our future financial expectations.

### **KYE MITCHELL, EVP AND CHIEF OPERATIONS OFFICER**

Overall revenues in Q2 declined 10.8% year-over-year with revenues in our technology staffing and solutions business declining 8.5% off very difficult prior year comps, where our technology business grew approximately 24%.

As Joe mentioned, our clients exercised more caution in starting new technology investments than we anticipated. Additionally, they continued to selectively trim resources on existing projects. With that said, we have not experienced clients terminating existing large projects. While the caution being exercised was seen across our client portfolio in 2023, it has been more prevalent in our largest clients. As you look at overall trends within the quarter, we saw some relative stability in April after a weaker than usual Q1, which was followed by a continued slight softening in May and June. During the last two months of the quarter the number of technology resources placed on new engagements declined from April levels and assignment ends continued to slightly outpace new consultants on assignment. To that point, we experienced relatively modest declines in the total number of consultants on assignment throughout the second quarter and our guidance reflects a continuation of that trend, as we have not yet seen an inflection point.

Overall average bill rates in our technology business remain near record levels at approximately \$90 per hour, which improved 1.3% sequentially and 3.5% year-over-year. This increase is primarily driven by the increasing mix of higher-skilled workers on assignment. In the near term, we expect that average bill rates will be stable or show slight improvement. This is primarily due to highly skilled technology talent mix and an increase in the proportion of managed teams and project engagements within our overall Technology business. Looking ahead, we believe average bill rates will continue to work in our favor in the long-term. This is especially true as our mix of higher value service offerings continues to rise. Our clients remain focused on critical technology initiatives in the areas of cloud, digital, UI/UX, data analytics, project and program management, and modernization efforts. Our clients tell us they are committed to starting new mission critical projects for their organizations, leading to wins across multiple industries, though the pace of initiation is slower. Although clients are currently exercising more caution in their project investments, based on our historical experience, we expect companies to swiftly shift their priorities and increase their technology investments once the macro-economic landscape becomes clearer.

Our clients expect us to broaden our service offerings beyond traditional staffing to include managed teams and project solutions. Clients consider access to the right talent essential to their success and see our services as a cost-effective solution for their project requirements. Our integrated strategy capitalizes on the strong relationships we have with world-class companies. We are utilizing our existing sales, recruiters, and consultants to provide higher value teams and project solutions that effectively address our clients' challenges.

Our client portfolio is diverse and includes large, market-leading customers, which we believe will drive sustainable, above-market performance in the long term. While short-term disruption may occur with certain clients or industries, our diverse client base of world-class companies will ultimately benefit our shareholders. We saw sequential declines in most of our large industry verticals, with the exception of our energy and utilities industry. On a relative basis, we experienced stabilizing sequential trends in the technology hardware and software industry. This sector had previously garnered attention due to headlines about workforce reductions.

Our guidance contemplates third-quarter revenues in our Technology business to decline sequentially in the mid-single digits and decline in the low teens on a year-over-year basis.

Our FA business declined approximately 10% sequentially and 28% year-over-year. The year-over-year declines reflect the impact of business we are no longer supporting due to our repositioning efforts as well as a more challenging macro-environment. We expect revenues to be down sequentially in the low double digits and approximately 30% on a year-over-year basis in the third quarter. We continue to support our FA business and improve its alignment with our Technology business. Evidence of this progress is that our average bill rate in the second quarter of 2023 is \$51 compared to \$38 in the first quarter of 2020, and more recently up 7.7% over the second quarter of 2022. Not surprisingly, our higher skill set business is where we are seeing relatively better performance.

We have taken necessary and thoughtful measures to strike a balance between associate productivity and revenue expectations. Our primary focus is on retaining our most productive associates, ensuring we are well prepared to capitalize on market demand when it accelerates. At the same time, we are also making targeted investments to improve our managed teams and project solutions capabilities.

I am truly grateful for the unwavering trust that our clients, candidates, and consultants place in us. It fills me with immense appreciation to witness the dedication, creativity, and resilience displayed by our incredible team. Without a doubt, it is their dedication and commitment that drives our success, and I am truly grateful. I will now turn the call over to Dave Kelly, Kforce's Chief Financial Officer.

#### **DAVID M. KELLY, EVP AND CHIEF FINANCIAL OFFICER**

Second quarter revenues of \$389.2 million declined 10.8% year-over-year and earnings per share were 95 cents.

Overall gross margins increased 20 basis points sequentially and declined 170 basis points year-over-year to 28.3% in the second quarter due to a combination of a lower mix of direct hire revenue and a decline in Flex margins.

Flex margins of 25.9% in our Technology business were flat sequentially on modest bill rate increases as clients understand that qualified highly skilled candidates remain in short supply. Technology Flex margins declined 100 basis points year-over-year due to higher healthcare costs and modest declines in bill-pay spreads due to heightened price sensitivities and changes in business mix. The decline in Technology Flex margins on a year-over-year basis that we experienced over the last several quarters is fairly typical of what we have seen in prior slowdowns; and we typically see margins recover as the macro-economic environment stabilizes. As additional reference, margins in our Technology business in 2022 were consistent with 2021 and 2020 levels. Technology talent has been scarce for more than a decade and we expect to see continued wage increases over the longer term and relative margin stability.

Flex margins in our FA business increased 150 basis points sequentially and have improved nearly 400 basis points over the last three years as our mix of business has improved due to repositioning efforts. Much like our Technology business, we anticipate Flex margins to remain fairly stable at these levels now that the significant majority of business that we are no longer pursuing has run off.

As we look forward to Q3, we expect spreads in our Technology business to decline slightly due primarily to higher utilization of paid time off during the summer months, reasonably consistent with what we experienced in the third quarter of 2022. As we look beyond Q3, as clients increasingly engage us for projects critical to their ongoing success, including managed teams and project solutions engagements that are typically higher margin opportunities, we expect this to support overall margin stability.

Overall SG&A expenses, as a percentage of revenue, decreased 70 basis points year-over-year. Given our exceptional growth in 2021 and 2022, our compensation plan structure rewarded our top performing associates with very significant bonuses and commissions. With growth coming off those historically very high levels, we are generating leverage in our SG&A costs through lower overall performance-based compensation costs. We have also been successful at driving greater cost efficiencies from our real estate portfolio given our Office-Occasional model, which has allowed us to reduce overall square footage by more than 40%. As we continue to transition our remaining office leases over the next two to three years, we expect to generate additional savings from further reductions in overall square footage. In this environment, we are also tightly managing other areas of discretionary spend.

Our second quarter operating margin was 6.7%, which was at the middle of the range of our expectations. Our effective tax rate in the second quarter was 27.5%.

Operating cash flows were \$21 million and our return on invested capital was approximately 40% in the second quarter.

We have a balance sheet with very little debt and expect to be generating more than \$100 million of operating cash flows in 2023. We have had a long history of returning capital to our shareholders. Since we initiated our dividend in 2014, we have increased it 360%. In addition, since 2007, we have reduced our weighted average shares outstanding from 42.3 million to 19.3 million, or more than 50%, at an average price of approximately \$21 per share. All in, we have returned nearly \$900 million in capital to our shareholders since 2007, which has represented approximately 75% of the cash generated, while significantly growing our business and improving profitability levels. In the second quarter, we returned nearly 100% of operating cash flows to our shareholders through repurchases and dividends. This is a continuation of the levels we have seen over the past two years. Our plans going forward are unchanged. We remain committed to returning capital regardless of the economic climate. Our balance sheet and the flexibility we have under our Credit Facility provides us the opportunity to get more aggressive in repurchasing our stock if there is a dislocation between expected future financial performance and the valuation of our shares.

The third quarter has 63 billing days, which is one fewer than the second quarter of 2023 and one fewer than the third quarter of 2022. We expect Q3 revenues to be in the range of \$359 million to \$367 million and earnings per share to be between 60 and 68 cents.

As Joe referenced in his opening remarks, we implemented some very difficult changes this month that immediately reduced our costs to better align overall support of the Firm with current and expected near-term revenue levels. These reductions

do not impact our commitment to investments contemplated in critical initiatives. Our overall operating performance at these revenue levels remains well above what we have previously seen, which is reflective of the return we are seeing from previous strategic investments. Contemplated in our third quarter guidance is a charge of approximately \$5.5 million, or 22 cents per share, related to these actions. Excluding this charge, the range of earnings per share would be 82 and 90 cents. We anticipate that these actions will reduce annual operating costs from current run rates by approximately \$14 million, or \$3.5 million per quarter. We will partially benefit from the savings in Q3 due to the timing of the actions.

Our guidance does not consider the potential impact of any other unusual or nonrecurring items that may occur.

Looking beyond the expected short-term macroeconomic uncertainties, we remain extremely excited about our strategic position and prospects for continuing to deliver above-market growth while continuing to make the necessary investments in our integrated strategy and back-office transformation efforts that will help drive long-term growth and put us in a position to attain double-digit operating margins as we grow.

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