KFORCE℠

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Q3 2023
CONFERENCE CALL

Prepared remarks from:
Joseph J. Liberatore, President and CEO
David M. Kelly, EVP and Chief Operating Officer
Jeffrey Hackman, Chief Financial 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 our laser focus on growing our business organically, the client backlog of critical projects that will be prioritized once the macro uncertainties begin to clear, our prospects, Kforce's (the "Firm") solid balance sheet and cash flows providing great flexibility to return significant capital to shareholders, the Firm's strategic position and prospects 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 fourth 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 and security 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," "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.

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.

The Firm continues to operate effectively against a challenging macro environment. Our laser focus on growing our business organically with a consistent, refined business model tailored to provide highly skilled technology talent solutions to world-class companies has been critical to our success. Third quarter results were stronger than we anticipated and results in our Technology business continue to be at the top of our peer group. Further to this point, we saw a notable improvement in consultant retention in the back half of the third quarter, which contributed significantly to our better than expected third quarter performance. We have experienced an improving trend in new assignment starts in October.

Our strategic position is solid, and our prospects are excellent. With that said, tremendous uncertainties still exist in the macro landscape, though the improvement in our results over the last quarter leaves us cautiously optimistic. The prevailing

view of economists continues to be that the US economy will fall into a recession in early 2024 following the aggressive monetary tightening by the Federal Reserve. The challenges in the geopolitical landscape continue to grow with the ongoing war in Ukraine, more recently with the war in Israel, along with US political uncertainties, and many others. Against this backdrop, the labor markets continue to be remarkably resilient with unemployment remaining at very low levels.

The message to our people has been simple. There are many things that are uncontrollable in this environment. We have asked our teams to focus on what they can control, such as staying close to our internal associates, supporting our consultants, and continuing to listen to our clients and partner with them in solving their most significant and complex business problems.

As we announced on our last earnings call, we took action in July to reduce our structural costs to the lower revenues that we were experiencing and announced certain executive organizational changes in September. While actions that affect our Kforce team are tremendously difficult to make and are never taken lightly, we believe these changes allow us to navigate through the ongoing macroeconomic uncertainties and situate us well strategically for the future. Our third quarter results include charges related to these actions and certain other costs, which Jeff Hackman will address in greater detail in his commentary along with the annualized benefits we expect as a result of these actions. Our Executive Leadership team has been through multiple economic cycles and has the experience to skillfully navigate through whatever may lie ahead. We are also blessed to have a solid, highly tenured, and high performing team at Kforce.

The strength of the secular drivers of demand in technology accelerated significantly coming out of both the Great Recession, with advancements in mobility, cloud computing, among many others, and the 2020 Pandemic, with further digitalization of businesses and the continued headlines around GenAI technologies. I have seen a lot of economic cycles in my 35 plus years in this business and each one behaves a bit differently. The acceleration in spend during the pandemic may have been a driver to the reduction in technology spend during early 2023, and more severely impacted technology trends relative to other staffing disciplines. The recent stabilization in our Technology business suggests to us that we are migrating to more traditional patterns. It remains clear to us that the broad and strategic uses of technology will continue to evolve and play an increasingly instrumental role in powering businesses. While clients have been acting with heightened caution over the past year, their backlog of desired investments continues to grow. We expect these important technology investments to be high priorities once the macro uncertainties begin to clear. Technology investments are simply not optional in today's competitive and disruptive business climate. There is simply no other market we would want to be focused in other than the domestic technology talent solutions space.

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 operating model also allows us to be flexible in partnering with our clients to meet their needs across a broad spectrum of engagement forms, from traditional staffing assignments to managed teams engagements and also fully managed projects.

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 given our significant bias towards organic growth.

I could not be prouder of the performance of our collective Kforce team. Together, against a challenging operating

environment, they have more than stepped up and met each and every challenge. I am excited about the future of Kforce operating consistently as one Firm.

I'd like to take the opportunity to recognize my two fellow participants on this afternoon's call. I am confident both will serve Kforce and its shareholders well in their new roles. As announced last month, Dave Kelly, was promoted to be Kforce's Chief Operating Officer. Dave has been with the Firm for nearly 24 years in various progressive roles, including most recently serving as our Chief Financial Officer for the past 10 plus years. Dave will provide commentary on our performance, operating trends, and strategic positioning. I'd like to introduce Jeff Hackman to our call, who was recently promoted as our new Chief Financial Officer. Jeff began his professional career with Arthur Andersen in 2001 and has been with Kforce for nearly 15 years, most recently serving as our Senior Vice President of Finance and Accounting for the past 8 years. He will provide additional detail on our financial results as well as our future financial expectations.

DAVE KELLY, EVP AND CHIEF OPERATING OFFICER

Revenue for the third quarter meaningfully exceeded the top end of our guidance. The performance of our Technology business, which declined less than expected due to positive late Q3 trends, was the most significant driver. Overall revenues in Q3 declined 13.4% year-over-year with flexible revenues in our Technology staffing and solutions business declining about 11% off very difficult prior year comps. As a reminder, our Technology business grew organically approximately 16% on a year-over-year basis in the third quarter of 2022 and nearly 30% in the third quarter of 2021.

When you look at our Technology business from Q2 to Q3, revenue declines moderated sequentially to only 2% as compared to a nearly 4% decline from Q1 to Q2. As Joe mentioned, our consultants on assignment stabilized mid-quarter in Q3 and actually showed very modest improvement at the end of the quarter. This trend has continued into October.

The volume of new assignments and projects still remain at lower levels than a year ago, though assignment retention was significantly better than we anticipated, and new assignment starts have recently improved. We believe this may be indicative of clients reaching minimum staff levels necessary to perform required activities and execute on mission critical initiatives. Based on our conversations with clients, they recognize the need to retain highly skilled talent while they await a point of increased confidence to more aggressively address their increasing backlog of desirable and important technology investments.

Overall average bill rates in our technology business remain near record levels at approximately $90 per hour, which improved slightly sequentially and 2.3% year-over-year. Even in this uncertain environment, highly skilled talent remains in short supply and high demand, which is reflective of the stability in bill rates. We are also benefiting from 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 remain at or near these levels and will trend higher over time.

Our clients remain focused on critical technology initiatives in the areas of digital, UI/UX, cloud, data analytics, business intelligence, project and program management, and modernization efforts.

Flex margins of 25.5% in our Technology business declined 40 basis points sequentially, due primarily to seasonal factors such as higher consultant paid time off, and 50 basis points year-over-year as a result of higher price sensitivities and higher healthcare costs. The year-over-year declines in Technology Flex margins that we have seen recently are fairly typical of

what we have seen in prior slowdowns; and we normally see margins recover as the macro-economic environment stabilizes. As we look forward to Q4, Flex margin spreads in our technology business are expected to be stable though overall Flex margins are expected to be slightly down due to seasonally higher paid time off in the fourth quarter.

Our clients expect us to continue 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 and cost efficiently address our clients' challenges.

Our client portfolio is diverse and includes large, market-leading customers. Market leaders typically prioritize technology investments to maintain their competitive advantage and our focus on addressing their needs has been, and will continue to be, critical in our ability to drive sustainable, above-market performance in the long term. While short-term disruption may occur with certain clients or industries, our diverse client base provides an outstanding platform for consistent, long-term growth. We experienced sequential declines in some of our larger industry verticals in Q3, and while our financial services and technology verticals were slightly down, trends stabilized later in the quarter. Healthcare and retail are experiencing some headwinds most recently, while transportation and utilities have been relative strengths.

October trends have continued to improve from Q3 levels and new starts activity in October has been meaningfully better than in early Q3. As a result, the midpoint of our guidance for the fourth quarter contemplates slight sequential revenue growth in our Technology business from Q3 to Q4 and a low double-digit decline on a year-over-year basis. Full-year flexible revenues in Technology are expected to be down approximately 7%, which is consistent with what we saw during the Great Recession.

Our FA business declined approximately 5% sequentially and 25% year-over-year. The year-over-year decline reflects 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 single digits and approximately 30% year-over-year, which is partially driven by a Hurricane Ian support project in Q4 last year. Our average bill rate in the third quarter was $51 compared to $38 in the first quarter of 2020. Not surprisingly, our higher skill set business is where we are seeing relatively better performance.

Flex margins in our FA business increased 10 basis points sequentially and have improved nearly 400 basis points since the first half of 2020 as our mix of business has improved due to repositioning efforts. 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.

We have taken necessary and thoughtful measures to strike a balance between associate productivity and our revenue expectations. As we have done in prior economic downturns, we are focused on retaining our most productive associates and making targeted investments in the business to ensure that we are well prepared to capitalize on the market demand when it accelerates. We continue to invest in our managed teams and project solutions capabilities and the integration of those offerings within the Firm.

We are fortunate to have one of the most recognized brands in the market for providing technology talent solutions. Our reputation has been established over our 60 plus year operating history and we are proud to carry a world-class net

promoter score as rated by our clients and consultants. We also carry the highest overall Glassdoor rating within our peer group. In addition, Kforce was recently named to Fortune's 2023 list for Best Workplaces in Consulting & Professional Services and Best Workplaces for Women.

I am extremely excited about our strategic positioning and ability to continue delivering above-market growth. The success that we have as an organization doesn't happen without the unwavering trust that our clients, candidates and consultants place in us, and I appreciate the dedication, creativity, and resilience displayed by our incredible team. I will now turn the call over to my partner for many years and Kforce's new Chief Financial Officer, Jeff Hackman.

JEFFREY HACKMAN, CHIEF FINANCIAL OFFICER

Thank you, Joe and Dave, for your support over the years and your comments. We are blessed to have the unwavering support and passion of the entire Kforce team in moving our Firm forward. I appreciate the opportunity to provide some comments about our financial position and forward-looking expectations.

In the third quarter, we recognized expenses related to actions to reduce our structural costs to better align them with the lower revenue levels, and also incurred expenses related to the executive realignment that we announced in September. These costs, as well as certain legal accruals for the expected settlement of outstanding legal matters, amounted to $8.4 million. As you remember, we included $5.5 million within third quarter guidance so there was an incremental $2.9 million recognized in the quarter. These total costs, net of the related tax benefit, impacted GAAP earnings per share by 36 cents.

In my commentary, I will discuss certain non-GAAP items. The non-GAAP financial measures provided should not be considered as a substitute for or superior to the measures of financial performance prepared in accordance with GAAP. They are included as additional clarifying items to aid investors in further understanding the impact of these costs on our financial results. Our press release provides the reconciliation of differences between GAAP and non-GAAP financial measures.

Third quarter revenues of $373.1 million declined 13.4% year-over-year. GAAP earnings per share was 54 cents. As adjusted for the previously mentioned costs, earnings per share of $0.90 was at the high end of our third quarter expectations.

Overall gross margins declined 60 basis points sequentially and declined 130 basis points year-over-year to 27.7% in the third quarter due to a combination of a lower mix of direct hire revenue and a decline in Flex margins.

Overall SG&A expenses as a percentage of revenue, as adjusted for the third quarter charges, was 20.9%, which was a decrease of 60 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 and are exercising greater discretionary spend control in this macro environment.

Our operating margin, as adjusted for the third quarter charges, was 6.5%, which was at the top end of our expectations. Our effective tax rate in the third quarter, as adjusted, was 27.8%.

Operating cash flows were $29 million and our return on invested capital was approximately 40% in the third quarter.

We are fortunate to have intentionally managed our business by driving solid organic growth that has resulted in a pristine balance sheet with very little debt. We expect to generate close to $100 million of operating cash flows in 2023 and anticipate returning approximately 100% of the cash flow generated to our shareholders. Our pattern of returning significant capital to our shareholders has been consistent over many years, not just in this operating environment. In fact, since we initiated our dividend in 2014, we have increased it 360% and, since 2007, we have reduced our weighted average shares outstanding from 42.3 million to 19.5 million. 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. We remain committed to returning capital regardless of the economic climate and our threshold for any prospective acquisition is extremely high. Our balance sheet and the flexibility we have under our Credit Facility provides us with 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 fourth quarter has 61 billing days, which is two fewer than the third quarter of 2023 and the same as the fourth quarter of 2022. We expect Q4 revenues to be in the range of $359 million to $367 million and earnings per share to be between 74 and 82 cents. Our guidance does not consider the potential impact of any other unusual or nonrecurring items that may occur.

As Joe referenced in his opening remarks, we implemented some very difficult changes this quarter that immediately reduced our costs to better align overall support of the Firm with current and expected near-term revenue levels. It is worth reinforcing what we said on our last earnings call that the actions taken are expected to reduce annual operating costs by approximately $14 million, or $3.5 million per quarter. To be clear, the benefit to the third quarter of roughly two-thirds of this quarterly figure was contemplated in our guidance. These reductions do not impact our commitment to our 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.

Looking beyond what we expect may be 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 the ongoing transformation of our back office that we expect 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.