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

Q4 2023
CONFERENCE CALL

Prepared remarks from:
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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 positioning to take additional market share and create significant long-term returns for our shareholders, our focus on growing our business organically, our expectation for technology investments to be high priorities once the macro uncertainties begin to clear, and the Firm's guidance for the first quarter of 2024. 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 that 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 SEC. 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 tremendously grateful for the extraordinary efforts of the Kforce team who executed well in 2023 in an environment that proved to be more challenging than originally expected. Our results, driven by solid execution and a focused business model, also allowed us to continue allocating significant capital towards strategic investments in our people and tools. As a result, we enter 2024 well positioned to take additional market share and create significant long-term returns for our shareholders. The investments we are making include a continuation of efforts to transform the back office, implementing AI in certain areas to drive efficiency and productivity while further institutionalizing our One Kforce organizational design and operating principles. During 2023, we selected Workday as our future state enterprise cloud application for HCM and financials, which will complement our Microsoft front-end applications and create a unified and streamlined technology suite for the Firm once fully implemented over the next few years. We are incredibly fortunate to be partnering with Workday and Microsoft, two companies at the forefront of investing in AI, which puts us in an ideal position to take advantage of these technologies as they become available. This foundational transformation will be a meaningful contributor to us meeting one of our longer-term financial objectives of generating at least 10% operating margins.

Our decision to grow our business organically with a consistent, refined business model tailored to provide highly skilled technology talent solutions to world-class companies in the domestic market has been critical to our success over many years, and we remain confident that our Firm is positioned well for improving market conditions. We experienced a decline in Technology revenues in 2023 that closely resembles what we experienced in the Great Recession in 2009. We believe the decline that we experienced in 2023 was due to an acceleration of strategic technology investments made during 2021 and 2022 to address the implications of remote work and other digital transformation efforts, combined with the caution exercised by companies in a very uncertain environment. Companies remain cautious due to continued economic and geopolitical uncertainty and we are encouraged to have grown Technology revenues sequentially in the fourth quarter of 2023 on a billing day basis in this difficult environment.

We are blessed to have a tenured Executive Leadership team who has been through multiple economic cycles together and can quickly adjust to changing market conditions. Our message to our people in 2023 was simple and frankly it is no different as we begin 2024. There are many things that are uncontrollable. We must control what we can control, stay close to our internal associates, support our consultants, and continue listening to our clients while maintaining a long-term view in our decision-making.

We made some difficult adjustments in July 2023 to reduce our structural costs, which mitigated the impact of lower revenues on our profitability levels. Our strategic position is solid, and our prospects are excellent. With that said, tremendous uncertainties still exist in the macro landscape and there are conflicting views of economists on whether we avert a recession, see a soft landing, or slip into a recession in the US economy in 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, the affects across the region of the war in Israel, including the loss of American service members with dozens injured in the drone attack on their base in Jordan, along with 2024 U.S election uncertainties, and many others. We will continue to closely monitor our performance indicators and trends and are prepared to make the necessary adjustments to our business without jeopardizing investments in our long-term strategic priorities.

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. What remains clear to us though is that the broad and strategic uses of technology, including AI technologies, will continue to evolve and play an increasingly instrumental role in powering businesses. Over the long term we believe that AI and other technologies will continue to drive demand for, rather than replace technology resources, and that the pace of change will accelerate. We are ideally positioned to meet that demand. Our core competency is rooted in the ability to identify and provide critical resources, real-time and at scale, to help world class companies solve complex problems and help them competitively transform their businesses. 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 direct hire, traditional staffing assignments to managed teams' engagements and managed projects.

While clients have been acting with restraint over the last 12 plus months, the 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.

We have built a solid foundation at Kforce. Our balance sheet is clean, which allowed us to be opportunistic in repurchasing over $67 million of our stock in 2023, and we expect to continue to generate strong cash flows in 2024. Our Board of Directors recently approved an increase in our quarterly dividend and share repurchase authorization, to support our ongoing objective of returning capital to our shareholders.

Before transitioning the call to Dave, I wanted to reiterate how proud I am of the performance and resiliency of our collective Kforce team. Together, we fought through a challenging operating environment, made some difficult decisions and met each and every challenge. We are blessed to have a high performing team that is tenured, dedicated, and passionate at Kforce. I am excited about the future of Kforce as our team continues to advance our office occasional model in combination with our integrated strategy resulting in our overall team's ability to operate even more consistently as one Firm.

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

DAVE KELLY, EVP AND CHIEF OPERATING OFFICER

Revenue for the fourth quarter came in just above the midpoint of our guidance. We were encouraged to see overall revenues increase sequentially by 0.6% led by sequential growth in our Technology business. For fiscal 2023, overall revenues were down 10% while flex revenues in our Technology business were down approximately 7%. As a reminder, our Technology business significantly outperformed the market in 2022 and 2021, growing 43.5% over that two-year period. The Q4 sequential growth in our Technology business is reflective of the stability in the number of consultants on assignment we began to see beginning in mid Q3, which was followed by a modest increase through the fourth quarter.

As we look into early Q1 trends, year-end assignment ends in our Technology business were slightly greater than prior year levels as clients were generally slower than usual to approve 2024 IT budgets, which resulted in fewer redeployments of our consultants as projects were completed at year end within existing clients. This also contributed to a slightly later start in the typical acceleration of new orders from our clients at the beginning of the year. With that said, over the last two weeks we have seen improvement in our leading indicators, and as a result, we believe that the level of new assignment starts could improve from current levels as we get later in the quarter. This suggests we may see a more traditional pattern of growth in the number of technology consultants on assignment, albeit beginning slightly later in the quarter than usual. Our clients recognize the need to retain the highly skilled talent that we provide while they await a point of increased confidence to address their increasing backlog of critical technology initiatives more aggressively.

Overall average bill rates in our technology business remain near record levels at approximately $90 per hour. While bill rates have been stable over the past few quarters, we expect them to increase over the longer term as highly skilled talent

will remain in short supply as demand improves. In addition, we are continuing to benefit from an increased mix of managed teams and project engagements within our overall Technology business, which carries a higher average bill rate.

Our clients remain focused on critical technology initiatives in the areas of digital, UI/UX, cloud, data governance, data analytics, business intelligence, project and program management, and modernization efforts. This represents a continuation of recent trends and reflects some of the front-end work needed by companies to take advantage of planned AI-related investments.

Flex margins of 25.4% in our Technology business saw a seasonal decline of 10 basis points sequentially, and 70 basis points year-over-year. As we have mentioned on prior calls, the year-over-year declines in Technology Flex margins that we have seen recently are 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 Q1, we expect bill/pay spreads in our technology business to continue to be stable, though overall Flex margins will be lower due to seasonal payroll tax resets.

We have continued 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 as demonstrated by more than 90% of our managed teams and project solutions being executed within existing clients. Our integrated strategy capitalizes on the strong relationships we have with world-class companies by 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. Our focus on addressing their needs continues to be critical in our ability to drive sustainable, long-term above-market performance. 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 stabilization in some of our larger industry verticals in Q4, including Financial Services and Technology Services. Elsewhere, we saw quarter-over-quarter improvement in Transportation and Retail Trade and some headwinds in Manufacturing.

Looking forward to Q1, we expect Technology revenue to decline between 10 and 12% year-over-year, which is consistent with Q4 2023.

Our FA business grew approximately 2% sequentially but declined 28% year-over-year as the prior year period included a project to support hurricane relief efforts. The year-over-year decline also reflects the impact of business we are no longer supporting due to our repositioning efforts and a more challenging macro-environment. We expect revenues to be down approximately 25% year-over-year. Our average bill rate has continued to exceed $50 per hour, reflecting our success in repositioning this business towards a higher skill set of business which is more synergistic with our Technology service offering.

Flex margins in our FA business decreased 70 basis points sequentially due to a lower margin project with a strategic client but have improved 330 basis points since the first half of 2020 as our mix of business has significantly improved. We expect bill/pay spreads to remain fairly stable at these levels now that the significant majority of business that we are no longer pursuing has run off; however, overall, FA margins will decrease sequentially due to the seasonal payroll tax resets.

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, which is progressing well.

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 continue to carry the highest overall Glassdoor rating within our peer group.

I am tremendously excited about our strategic position and ability to continue delivering above-market performance. 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 Jeff Hackman, Kforce's Chief Financial Officer.

JEFFREY HACKMAN, CHIEF FINANCIAL OFFICER

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.

Overall revenues in 2023 of $1.53 billion decreased approximately 10% year-over-year. GAAP earnings per share in 2023 was $3.13, which declined 15% year-over-year. As adjusted for the third quarter charges associated with actions to reduce our structural costs and the settlement of outstanding legal matters, EPS was $3.49 in 2023. This represents a decrease of 18% over the prior year period, as adjusted for a fourth quarter 2022 impairment charge related to a previous joint venture.

Fourth quarter revenues of $363.4 million declined 13.4% year-over-year, while earnings per share of $0.82 was at the top end of guidance due to lower-than-expected SG&A costs.

Overall gross margins declined 40 basis points sequentially and declined 120 basis points year-over-year to 27.3% in the fourth 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 was 21.0%, which is a decrease of 150 basis points year-over-year, or a decrease of 100 basis points after normalizing for the joint venture impairment charge. SG&A costs were lower than anticipated in the fourth quarter of 2023 due to lower performance-based compensation, lower healthcare costs and lower professional fees stemming from the settlement of outstanding litigation. We also continue to exercise greater discretionary spend control in this macro environment and generate leverage from our real estate portfolio given our Office-Occasional work environment.

Our operating margin of 6.0% exceeded the high end of our expectations of 5.8%. Our effective tax rate in the fourth quarter

was 26.6%, which was 160 basis points higher than we anticipated due to adjustments to certain tax credits.

Operating cash flows were $22 million and our return on invested capital was approximately 40% in the fourth quarter.

We generated $116 million in EBITDA in 2023. Operating cash flows were $91.5 million for 2023 and we returned nearly $95 million in capital, in excess of 100% of operating cash flows, to our shareholders via dividends and open market repurchases.

We have prudently managed our business by driving solid organic growth over many years that has resulted in consistently strong results and a pristine balance sheet with minimal debt. As Joe indicated in his opening remarks, our Board of Directors approved an increase to our dividend, the fifth consecutive annual increase, and an increase in our share repurchase authorization to $100 million. These actions again demonstrate our financial strength and continued confidence in our business. 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 nearly 400% and, since 2007, we have reduced our weighted average shares outstanding from 42.3 million to 19.5 million. All in, we have returned slightly more than $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 remains high. Our strong 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 first quarter has 64 billing days, which is three more than the fourth quarter of 2023 and the same as the first quarter of 2023. We expect Q1 revenues to be in the range of $351 million to $359 million and earnings per share to be between 54 and 62 cents. Our guidance does not consider the potential impact of any other unusual or nonrecurring items that may occur.

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 will help drive long-term growth and profitability improvements. Joe mentioned our longer-term financial objective of attaining double digit operating margins. We believe the key contributors are increased scale, productivity improvements – including through our back-office transformation program and advancements in AI technologies, driving a greater mix of managed teams and solutions business and further reducing our fixed costs such as real estate. As a point of reference, in 2022, our operating margin was approximately 7% at $1.7 billion in revenue. As we look forward, the anticipated benefits associated with our back-office transformation program are about 100 basis points compared to the current level of investment. When you combine this benefit with the benefit of scale, we believe a reasonable revenue level for us to attain double digit operating margins is slightly more than $2 billion in annual revenues. We offer this data point as our confidence in achieving these profitability levels has further increased due to the returns we have seen in our front office technology investments and our progress with our transformation efforts.

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