



KFORCE℠

TOGETHER TOWARD **TOMORROW**

Q1 2024
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 the backlog of desired investments that are expected to be high priorities once the macro uncertainties begin to clear, the evolution and increasingly instrumental role of technology in driving businesses, demand drivers of technology spend, the acceleration of technological change, the Firm's confidence in being well positioned for improving market conditions, and the Firm's guidance for the second 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, 2023, 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, thank you for your time today. 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.

Our first quarter performance was generally consistent with our expectations, and we were encouraged by March trends in our Technology business. Operating trends over the past two quarters and discussions with our clients indicate to us that the current operating environment is more stable and constructive than it was throughout most of 2023. There remains uncertainty as to whether or not the U.S. economy will fall into a recession. The dialogue surrounding interest rate cuts has shifted from a discussion referencing the number of anticipated cuts and when we should expect cuts in 2024 to if there will be any cuts at all this year. Geopolitical concerns, including the war in Ukraine, the recent expansion of the war in Israel with Iran's aggression, further complicate forward looking visibility. Against this backdrop, our clients, broadly speaking, have continued to exercise a degree of caution initiating new technology investments. Importantly, this restraint does not appear to be increasing but, rather, appears to be fairly stable.

As we look beyond the current uncertainties, we continue to be encouraged by the backlog of strategically imperative investments that we expect to be high priorities for our clients once the macro uncertainties begin to clear. Technology investments are simply not optional in today's competitive and disruptive business climate. Given the secular underpinnings, there is simply no other market we would want to be focused in other than the technology talent solutions space.

As we move throughout the upcoming second quarter and second half of 2024, we will closely monitor our performance indicators and trends and make any necessary adjustments to our business while continuing to invest in our long-term strategic priorities and retain our most productive associates.

As to our first quarter results, revenue and earnings per share were both within our range of guidance. The improvement in our leading indicators that we spoke about on our last call translated into reasonably robust new assignment growth in March 2024, which encouragingly is expected to lead to sequential growth in our Technology business in the second quarter at levels close to historical seasonal pre-pandemic levels. Dave Kelly will expand upon our operating trends in his remarks.

Our message to our people is unchanged. During these uncertain times, we must control what we can, stay close to our people and our clients while maintaining a long-term view in our decision-making. We are blessed to have a tenured Executive Leadership team, who has been through multiple economic cycles together and is prepared to quickly adjust to changing market conditions, and we are equally blessed to have a high performing team that is tenured, dedicated, and passionate about what they do.

While all economic cycles behave a bit differently, what remains clear is that the broad and strategic uses of technology, including the most recent technology secular shift associated with AI, 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.

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 has been critical to our success over many years, and we remain confident that our Firm is positioned well for improving market conditions. I am tremendously proud of our team as they continue to execute with incredible passion to serve our clients, candidates, and consultants cohesively as one Kforce. I remain confident and excited about the future of Kforce.

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.

DAVID M. KELLY, EVP AND CHIEF FINANCIAL OFFICER

Thank you, Joe. Total revenues for the first quarter were $352 million, down 7.7% sequentially and 13.3% year-over-year. Our Technology business declined 6.9% sequentially and 11.4% year-over-year.

As we mentioned on our last call, following a slower start to the year and higher year-end assignment ends, we experienced an improvement in our leading indicators in late January and believed those higher activity levels would contribute positively to new assignment starts in our Technology business later in the quarter. As expected, we experienced a notable acceleration in our consultants on assignment throughout March, which should lead to sequential growth in Q2 within the range we saw before the pandemic. Our clients continue to undertake mission critical projects and also recognize the need to retain the highly skilled talent that we provide while they await a point of increased confidence to accelerate spending to address their increasing backlog of technology initiatives.

Overall average bill rates in our technology business have remained stable over the past few quarters and continue to reflect our focus on providing highly skilled talent on both traditional staffing assignments or as part of a managed team or project.

Our clients remain focused on critical technology initiatives in the areas of digital, data governance, AI, and ML, UI/UX, cloud, data analytics, business intelligence, project and program management, and modernization efforts. This represents a continuation of recent trends and reflects some of the foundational work required by companies to gain the eventual benefit of AI-related investments.

Flex margins of 25.3% in our Technology business declined 10 basis points sequentially, and 60 basis points year-over-year. The sequential decline was less than expected, as lower healthcare claims helped to offset the traditional annual tax resets. Our bill-pay spreads continued to be stable on a sequential basis, which is an encouraging data point given the cloudiness in the economic environment.

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. 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 is comprised primarily of large, market-leading companies. 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. Given the seasonal resets we see at year-end, a number of our industry verticals declined sequentially in the first quarter, but we saw relative stability in our retail, transportation and manufacturing verticals and some headwinds in financial services after a steady performance in the fourth quarter.

Looking forward to Q2, we expect Technology consultants on assignment to remain relatively consistent with the levels we ended with in the first quarter and for revenue to increase sequentially in the low single digits. Year-over-year revenue declines will decelerate to the mid-single digits.

Our FA business, currently 8.5% of our revenues, declined approximately 16% sequentially and declined 27% year-over-year. The year-over-year decline reflects the impact of business we are no longer supporting due to our repositioning efforts and a more challenging macro-environment environment. Our average bill rate has continued to exceed $50 per hour as we continue to drive this business towards a higher skill set of business that is more synergistic with our Technology service offering. We expect Q2 FA revenues to be down year-over-year in the mid 20% range.

Flex margins in our FA business decreased 70 basis points sequentially due to a lower margin project with a strategic client but have improved 130 basis points over the last five years as our mix of business has significantly improved. We expect bill-pay spreads to remain fairly stable at these levels in Q2.

We have taken 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.

While the uncertainty in the macro environment has persisted longer than many expected, I remain excited about our strategic position and ability to continue delivering above-market performance. The success that we have as a firm doesn't happen without the unwavering trust that our clients, candidates, and consultants place in us. We have been able to continue delivering strong relative performance during this difficult period while continuing to aggressively invest in the strategic initiatives that are critical to our long-term success and expect to continue to do so. 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.

JEFF HACKMAN, CHIEF FINANCIAL OFFICER

First quarter revenues of $352 million declined 13.3% year-over-year and earnings per share of $0.58 were at the mid-point of our expectations.

Overall gross margins in the first quarter declined 20 basis points sequentially due to seasonal payroll tax resets, which was partially offset by lower healthcare costs. Margins declined 100 basis points year-over-year to 27.1% 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 22.2%, which is an increase of 20 basis points year-over-year. Our variable-based compensation structure, the adjustments we made in July 2023 to reduce our structural costs to the lower revenue levels, and disciplined cost management have significantly mitigated the impact of lower revenue and gross profit levels on our profitability. With that said, we are continuing to prioritize investments in retaining our most productive associates and advancing our enterprise initiatives, both of which are expected to significantly contribute to our longer-term financial objectives.

Our operating margin of 4.5% was toward the high end of our expectations. Our effective tax rate in the first quarter was 27.1%, which was higher than we anticipated due to greater non-deductible expenses and adjustments to certain tax credits.

Operating cash flows were approximately $13 million and our return on invested capital was nearly 40%.

We have prudently managed our business by driving solid organic growth over many years, which has resulted in consistently strong results and a pristine balance sheet with minimal debt. Our pattern of returning significant capital to our shareholders has been consistent over many years and continued in Q1, with a total of approximately $9 million returned through dividends and share repurchases. 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 very 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 second quarter has 64 billing days, which is the same as the first quarter of 2024 and the same as the second quarter of 2023. We expect Q2 revenues to be in the range of $352 million to $360 million and earnings per share to be between 68 and 76 cents. Our guidance does not consider the potential impact of any other unusual or nonrecurring items that may occur.

We remain excited about our strategic position and prospects for continuing to deliver above-market results over the long-term while continuing to make the necessary investments to help drive long-term growth and enable us to achieve our longer-term profitability objective of attaining double digit operating margins at slightly greater than $2 billion in annual revenues.

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