KFORCE

TOGETHER TOWARD **TOMORROW**

Q2 2025
CONFERENCE CALL

Prepared remarks from:
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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 potential negative effects on the U.S. consumer and broader U.S. economy resulting from global trade negotiations and potential retaliatory measures, the backlog of strategically imperative technology investments that our clients are expected to execute once greater positive visibility exists, and the Firm's guidance for the third quarter of 2025. 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: general business conditions; global trade policy and Department of Government Efficiency (DOGE) actions, and their potential impacts on our operations and the broader economy; growth rates in temporary staffing and the general economy; competitive factors; risks due to shifts in the market demand; changes in 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 and issue dividends; 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 or respond to government regulations, laws, orders, guidelines and policies that impact our business; risk of contract performance, delays, termination or the failure to obtain new assignments, contracts, or funding under contracts; ability to comply with our obligations in a remote work environment, including consultants engaging in unauthorized or fraudulent activity; continued performance, security of, and improvements to, our enterprise information systems; and 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, 2024, 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 and thank you for your time today. This call contains certain statements that are forward-looking, 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.

Against the backdrop of a macroeconomic environment that has faced heightened uncertainty for a prolonged period of time, we are pleased to have delivered sequential flex revenue growth in both our Technology and Finance & Accounting businesses in the second quarter. Overall results were largely consistent with expectations and I'm proud of how our teams are continuing to execute and take market share.

While the enactment of the One Big Beautiful Bill removed some uncertainty related to tax policy, the global trade negotiations and potential retaliatory measures are far from settled and the potential derivative negative effects on the US consumer and broader US economy remains highly uncertain as exhibited by continued mixed economic data. Conversations with our clients, which are predominately market-leading companies, and our operating trends suggest that we are continuing to operate in a demand constrained environment. With that said, our clients continue to carry a significant backlog of strategically imperative technology investments that they expect to execute once greater positive visibility exists.

Over the past three years, job gains have been concentrated in a handful of sectors – healthcare, leisure and hospitality, construction, education, and government. These areas have driven the bulk of labor market growth. Outside of these sectors, where our client presence is modest, job creation has been minimal to nonexistent. Unemployment claims have remained low, which suggests that companies, broadly speaking, continue to be reluctant to lay off workers after allowing natural attrition to downsize their workforce over the last three years. These data points, when combined with the increasing backlog of critical technology initiatives, suggest to us that companies may not have sufficient capacity in an expanding economic environment that is free of the current significant macro uncertainties. In addition, our historical experience is that companies typically turn to flexible talent solutions as an initial step prior to making core hires while they assess the durability of the macroeconomic conditions. The emergence of AI may intensify this trend as companies prioritize agility until they gain clearer insight into how these technologies will reshape their overall talent strategies.

Generative AI continues to dominate headlines and has become a fixture in conversations with our clients and our people. As we have previously articulated, over the long term, we believe that AI and other innovative technologies will continue to play an increasing role in powering businesses. This is informed by decades of experience operating in the technology sector, where we have seen new and disruptive technologies introduced such as the rise of the internet, the mobility revolution and proliferation of applications and the transition to cloud-based technologies, to name a few. Each of these technology evolutions went through similar phases where companies look to understand the technology, assess the implications on their business, determine their strategy, begin assembling their roadmap and take advantage of the technology. There were also concerns in the early phases of these evolutions of disruption to certain areas of the labor market. What eventually unfolded through each was the creation of new roles, expansion of existing roles and redefinition of roles which led to the acceleration of additional technology investment. We believe we are in the early phases of Gen AI and while the demand we are seeing is not yet evident at scale, we are seeing meaningful opportunities with market-leading companies to assist them in aspects of their overall Gen AI journey. Dave Kelly will cover this in more detail. Access to the right talent will be at the heart of a company's success in preparing and utilizing these new tools. We are ideally positioned to meet what we expect to be increasing demand in AI foundational readiness work in combination with our ability to access evolving skill sets that will be required as companies move deeper into their AI roadmaps. We remain strongly positioned to further expand our footprint within existing clients while continuing to expand into new clients to take additional market share as we have been doing successfully for years, reinforcing the foundation we are building to deliver substantial long-term value for our shareholders.

As we look ahead to the third quarter and the remainder of 2025, as has been the case over the last few years, we will continue to stay close to our clients and monitor our key performance indicators and make any necessary adjustments to our business while continuing to invest in our long-term strategic priorities with a keen focus on the retention of our most productive associates. We remain encouraged by the recent trends that continue to affirm the stability in our technology business.

We've established a strong foundation at Kforce and remain committed to investing in the transformation of our business through our strategic priorities, all of which are meaningfully progressing. Our domestically focused, organic growth strategy continues to serve us well—minimizing distractions and enabling our people to fully concentrate on partnering with clients to solve their most critical business challenges

Before turning the call over, I want to take a moment to recognize the incredible people who make up our Kforce team. I'm deeply proud of the performance, resilience, and unwavering commitment shown across the organization. We're privileged to work alongside such a talented, united, and passionate group of professionals. It's because of the people who make up Kforce we're in such a strong strategic position, one I wouldn't trade with anyone in our space. The future is bright, and I couldn't be more excited about what lies ahead.

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 OPERATING OFFICER

Thank you, Joe. Total revenues of $334.3 million declined 6.2% year-over-year and were largely consistent with our expectations. Flex revenues in our Technology and Finance & Accounting businesses both improved slightly sequentially in the second quarter, while Direct Hire revenues were more challenged in the quarter given the sensitivity in this line of business to macro conditions and came in below our expectations.

While macroeconomic uncertainties have largely persisted, our clients continue to prioritize mission-critical initiatives, though given the backdrop continue to take a measured approach while they await a period of greater confidence.
As increasingly requested by our clients, we have continued to drive, with strategic intent, a greater mix of our business through consulting-oriented solutions that align with the desire to access highly skilled talent in a cost-effective manner. Demand for our consulting-led offerings remains strong, as evidenced by continued sequential and year-over-year growth and a growing pipeline of qualified opportunities. This offering continues to be a key driver to our overall Technology top line outperformance versus our peers and stability in our margin profile and average bill rate. This growth highlights our adaptability and our success in meeting the changing needs of our clients. While our traditional staffing business has seen year-over-year revenue declines, the expansion of solutions-based engagements underscores our strategic shift and the increasing value clients place on our capability to provide talent through various delivery structures.

An increasingly important aspect of providing cost-effective solutions is our ability to source highly skilled talent from outside the United States. Our development center in Pune, combined with our robust U.S. sales and delivery capabilities and a high-quality vendor network, enables us to comprehensively address the evolving needs of our clients, whether onshore, or blended onshore, nearshore, or offshore teams.

The overall average bill rate in our technology business of $90 has remained stable over the past three years despite the uncertain macro environment due to a greater mix of consulting-oriented engagements, which carry a higher average bill rate and margin profile. The demand within each of our practice areas: data and AI, digital, application engineering and cloud has continued to be strong and the pipeline of consulting-oriented engagements has continued to improve. Each of these areas are critical to the preparation and implementation of AI tools and companies are expected to need access to critical talent to meet their objectives, which, we believe, provides significant opportunity for our Firm. Joe referenced the opportunities we are seeing in the overall AI space. We thought it would be helpful to articulate a few examples of how we are partnering with clients. In a recent engagement with a market-leading technology company, we're partnering with one of their key organizations to implement agentic AI workflows. These AI-driven solutions enhance end-user productivity and efficiency, while also unlocking deeper insights through improved visibility into data patterns and trends. In another engagement with a top-tier networking technology company, we helped drive measurable value by equipping their sales organization with agentic AI-powered workflows. These solutions are designed to sharpen pipeline visibility and guide sales teams toward the most strategic next actions, ultimately accelerating deal velocity and improving alignment with customer priorities.

Our focus on providing flexible talent via traditional staff augmentation engagements or through our consulting-oriented engagements, especially in times of uncertainty, positions Kforce ideally to participate in the growing investments in AI, including the required readiness work, in addition to more traditional areas of technology that are still progressing.

Our ability to source and provide top-tier professionals who can address complex technological challenges has ensured that our services remain indispensable, even as overall industry trends have slowed. Our core competency lies in sourcing quality talent at scale for our clients, adapting to the evolving demand for various skill sets. As technology has evolved over the decades, we have efficiently adapted to the changing skill set demands of our clients, ensuring we remain a trusted partner in their technological advancements.

Our client portfolio is diverse and is predominately comprised of large, market-leading companies. Our focus on addressing their needs continues to be critical to our ability to drive sustainable, long-term above-market performance. Looking forward to Q3, the pace of overall new engagements and project ends remains stable with Q2 levels, though clients continue to reallocate spend within their businesses to areas they find most promising. As a result of such actions at a small number of clients at the end of Q2, we experienced some unanticipated project ends and therefore expect a modest sequential decline in our Technology business in Q3.

Flex revenues in our FA business, currently about 6% of revenues, declined 16.8% year-over-year, but as previously noted, saw sequential growth in the second quarter; the first time in several years that this quarter has seen expansion. Our average bill rate of approximately $54 per hour notably improved sequentially and year-over-year and is reflective of the higher skilled areas we are pursuing. We expect Q3 revenues in FA to be up sequentially on a billing day basis in the mid-single digits. I want to thank this team for its perseverance and driving positive momentum in this space.

An area where we have seen a more significant impact from the economic uncertainty is in our Direct Hire, which represents approximately 2% of overall revenues. We expect Direct Hire to be relatively flat sequentially in Q3.

We continue to align our associate staffing levels with productivity expectations, prioritizing the retention of our most productive associates, while making targeted investments to ensure we are well-prepared to capitalize on market demand as it accelerates. Over the past three years, we have selectively invested in our sales teams, while rationalizing our delivery resources, which have decreased by close to 45% over that time period. Despite these reductions, we believe we have ample capacity to absorb several quarters of increased demand without adding significant resources. Additionally, we continue to invest in our consulting solutions business.

We believe the slight sequential growth we experienced in Q2 reflects the continued stabilization of demand. We remain tremendously excited about our strategic position and our ability to continue delivering above-market performance in our Technology business, as we have for well over a decade. The success we achieve as an organization is a testament to the unwavering trust that our clients, candidates, and consultants place in us. I will now turn the call over to Jeff Hackman, Kforce's Chief Financial Officer.

JEFF HACKMAN, CHIEF FINANCIAL OFFICER

Thank you, Dave. Second quarter revenue of $334 million and earnings per share of 59 cents were both largely consistent with our expectations.

Overall gross margins increased 40 basis points sequentially to 27.1% due to an increase in Flex margins of 80 basis points primarily resulting from the seasonal pickup in payroll taxes. This was partially offset by a lower-than-expected mix of Direct Hire revenues. On a year-over-year basis, overall spread and business mix have been stable, though gross margins declined 70 basis points due to higher healthcare costs and lower direct hire mix.

Flex margins in our technology business increased 70 basis points sequentially due to the alleviation of Q1 payroll tax resets. Flex margins in Technology declined 30 basis points year-over-year due to higher healthcare costs, which were partially offset by slightly improved spreads. As we look forward to Q3, we expect flex margins to remain stable.

Overall SG&A expenses as a percentage of revenue of 22.2% were within the range of our expectations as we have continued to manage productivity and profitability levels well. SG&A expenses as a percentage of revenue increased 40 basis points year-over-year primarily driven by deleverage from lower revenue levels and higher healthcare costs, which were partially offset by leverage gained from continued refinements in our headcount and lower performance-based compensation. We are continuing to make targeted investments in our sales capabilities while tightly scrutinizing spend in all other areas of our business. We also continue to advance our enterprise initiatives, which contributes to some of the negative leverage we are seeing in SG&A costs, including the implementation of Workday, the maturation of our India development center and further integration of our solutions offering, all of which are expected to significantly contribute to our longer-term financial objectives and prepare us well for when companies more aggressively invest in their technology initiatives. We expect to begin to realize the benefits of our Workday implementation towards the end of 2026 as we stabilize ourselves post go-live with 2027 as the year we would expect to begin to realize significant annualized benefits.

Our operating margin was 4.5% and our effective tax rate in the second quarter was 24.6%. The effective tax rate was slightly lower than we expected due to a favorable adjustment in certain 2025 tax credits in the second quarter. We also expect a lower effective tax rate in the third quarter related to the finalization of 2024 tax credits in our income tax returns.

During the quarter, we remained active in returning capital to our shareholders, with $17.4 million in capital being returned through dividends of $6.9 million and share repurchases of approximately $10.5 million. We continue to carry a very solid balance sheet and historically conservative leverage against trailing twelve months EBITDA levels. As we move forward, we intend to maintain net debt levels relatively consistent with where we ended the second quarter of roughly $67.5 million. Any excess cash the business generates beyond fulfilling our capital requirements and quarterly dividend program will be utilized to repurchase our shares. Of course, we have significant remaining availability under our Credit Facility to get more aggressive in repurchasing shares if we believe there is a disconnect between our operating trends and expectations and valuation.

Operating cash flows were $18.4 million and our return on equity continues to exceed 30%.

We continue to execute our organically driven business well and we believe our industry-leading relative performance is a result of our intense focus in technology staffing and solutions in the U.S. augmented by our nearshore and offshore capabilities. We continue to carry a pristine balance sheet with conservative debt levels and return significant capital to our shareholders. This consistent repurchase activity continues to be strongly accretive to earnings. We have returned approximately $1 billion in capital to our shareholders since 2007, which has represented approximately 75% of the cash generated, while significantly growing our business and laying a foundation for significant profitability gains as revenues grow. Our threshold for any prospective acquisition remains very high.

The third quarter has 64 billing days, which is the same as the second quarter of 2025 and third quarter of 2024. We expect Q3 revenues to be in the range of $324 million to $332 million and earnings per share to be between 53 and 61 cents. Our guidance is based upon the assumption of the continuation of a stable environment and does not consider the potential impact of any other unusual or non-recurring items that may occur.

We remain excited about our strategic position and prospects for continuing to deliver above-market results 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. As we mentioned previously, we expect operating margins to approximate 8% when we return to $1.7 billion in annual revenues, which is more than 100 basis points higher than when that revenue level was achieved in 2022. This improvement is being driven by the expected benefits derived from investments in our strategic priorities which will drive down operating costs. On behalf of our entire management team, I'd like to extend a sincere thank you to our teams for their efforts.