KFORCE®

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Q2 2021 CONFERENCE CALL

Prepared remarks from:
David L. Dunkel, Chairman and CEO
Joseph J. Liberatore, President
David M. Kelly, CFO

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SECOND QUARTER 2021 FINANCIAL RESULTS
CONFERENCE CALL, AUGUST 3, 2021
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Disclaimer

All statements in these prepared remaks, other than those of a historical nature, are forward-looking statements including, but not limited to, statements regarding the performance of technology-focused businesses, the secular drivers of technology, the pace of digital transformation, the Firm's opportunity to continue investing in its future growth, returning capital to its shareholders including the intent and ability to declare and pay quarterly dividends, and the Firm's guidance for the third quarter of 2021. 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; a reduction 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; the impacts (direct and indirect) of COVID-19 on our business, our consultants and employees, and the overall economy; changes in the service mix; ability of the Firm to repurchase shares; the occurrence of unanticipated expenses; the effect of adverse weather conditions; changes in our effective tax rate; changes in government regulations, laws and policies that impact our business and our ability to comply with the same; risk of contract performance, delays or termination or the failure to obtain new assignments or contracts, or funding under contracts; changes in client demand and our ability to adapt to such changes; our ability to continue to perform under the government-sponsored COVID-19 related initiatives; continued performance of and improvements to our enterprise information systems; impacts of outstanding litigation or other legal matters, 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 ending December 31, 2020, as well as assumptions regarding the foregoing. The terms "should," "believe," "estimate," "expect," "intend," "anticipate," "foresee," "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.

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DAVID L. DUNKEL, CHAIRMAN AND CEO

Good afternoon. I would like to remind you that this call may contain 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 this quarter's 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 significant strength in our financial results leading into, during and now after the pandemic continues to affirm our strategic decision to focus our business on domestic technology staffing and solutions. Prior to the Great Recession, 50% of our business was providing technology solutions to commercial clients. Our executive and leadership teams and dedicated associates have all participated in completely reshaping the composition of our business, using as a foundation our 50 plus years of experience in delivering quality solutions to our clients. This reshaping involved numerous divestitures, evolving our client portfolio to be more significantly focused in industry-leading companies, and disproportionately investing in growing our technology business organically. Staffing Industry Analysts noted that the domestic technology staffing market was the largest staffing market segment in 2020, with spend of nearly $31 billion, which represents growth of nearly 100% since the Great Recession. The technology solutions market is estimated at greater than $100 billion which represents new growth opportunities for our managed teams and solutions efforts. As we look to the future, this market is expected to continue its rapid growth rate. With our revenues concentrated approximately 85% in technology, coupled with a complementary finance and accounting footprint, we are ideally positioned. There is no other market we would want to be focused in other than the domestic technology market as it has, in our view, the greatest prospects for strong sustained profitable revenue growth.

Further to this point, our Technology business has demonstrated remarkable resilience. Our full year technology revenues in 2020 were essentially flat from 2019 levels, despite an unprecedented macro environment. Revenues began to grow shortly after businesses began to shut down and have continued to build tremendous momentum over the course of the first half of 2021 and early stages of the third quarter. This is evident not only in our completely organic 21% year-over-year Technology revenue growth in the second quarter, but this is significant growth off a relatively strong comp in the second quarter of 2020, where we declined only 3%. Our Technology business has now grown approximately 17% since the second quarter of 2019, pre-pandemic.

The secular demand drivers, coupled with improving corporate prospects across virtually every industry, resulted in overall revenues for the second quarter exceeding the high end of our expectations. Our sequential and year-over-year growth rates of 9% and 21%, respectively represent the highest organic growth rates we have on record. We continue to make progress in

our objective of migrating our FA business toward higher-end skillsets for decision support and analytics. We believe this strategic shift, will provide an important compliment to the technology services we provide our clients.

During the lowest points of the COVID-19 crisis, we found several opportunities to assist our clients in providing resources to help key areas of relief efforts associated with the pandemic. The revenue streams from these projects provided us an important bridge to navigate through the pandemic. Not only did they allow us to retain the existing infrastructure in our business, but they provided an opportunity to increase investments that we believe will further enable sustained above market growth in the future. As the economy is now recovering, we have not pursued these opportunities further. Therefore, COVID-19 related revenues will significantly diminish in Q3, as Dave Kelly will elaborate. We will be left with the high-quality revenue stream we anticipated prior to the pandemic, growing at a rate over two times SIA market estimates.

We also continue to make great progress in positioning our Firm to have a more flexible hybrid work environment through our Kforce Reimagined initiative. The sale of our corporate headquarters facility in the second quarter, which generated nearly $24 million net proceeds, is aligned to this initiative. We are actively seeking a location for our future corporate headquarters in the Tampa Bay area, which will be a more modern, open, technology-enabled office, very similar to how we will be transitioning our field offices.

Our business continues to generate significant operating cash flows and we were again active in repurchasing our stock during the second quarter. The strength in our balance sheet and availability under our Credit Facility allows us to be opportunistic with respect to returning additional capital to our shareholders while continuing to evaluate potential tuck-in acquisitions. We will continue to apply very stringent cultural and financial criteria to any potential transaction as we are sensitive to the distraction this creates to our strong performing Technology business. Given our confidence in our future growth prospects, we expect to remain active in repurchasing our shares at current stock price levels. In addition, our Board of Directors recently approved a 13% increase to our quarterly dividend, which is the second increase in 2021. Our dividend is up 30% from prior year levels and we believe a strong signal of our belief in the strength in our business.

As we look ahead, we are incredibly excited about our strategic position. We have the right team in place to capture additional market share within what we believe will be a continued strong demand environment for our services. It's our belief that the pandemic has exponentially elevated the imperative for companies to rapidly digitize their businesses, transform business models and drive productivity gains through technology investment.

I will now turn the call over to Joe Liberatore, President, who will give greater insights into our performance, recent operating trends, and other insights into our operating environment. Dave Kelly, CFO, will then give greater detail on our financial results and position as well as our financial expectations and guidance for the third quarter.

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JOSEPH LIBERATORE, PRESIDENT

Thanks to all of you for your interest in Kforce.

The momentum across our business is continuing to accelerate. Total revenues for the second quarter exceeded the high end of our guidance and grew 17.7% on a year-over-year basis and has improved 19.1% compared to Q2 2019. Total Firm year-over-year growth in the second quarter is the highest organic growth rate we have on record.

The operating trends we continue to experience in our Technology business have been impressive. New assignment starts are not only reaching all-time highs, but they have been remarkably consistent and broad-based throughout the second quarter and thus far in the third quarter. We believe that this speaks volumes as to the vital, non-discretionary mission critical work that we are performing across our blue-chip client portfolio.

While the clear driving factor to our record levels of Technology growth is demand for additional resources, we continue to see increases in bill rates. Our average bill rate is now approximately $81 per hour, which is indicative of the demand for higher-end Technology talent for project and solutions work. Billable consultants on assignment began increasing shortly after the inception of the pandemic and have grown sequentially for four consecutive quarters. Consultants on assignment are now at levels 28% greater than in June 2020 and increased 6% from the beginning of the second quarter to the end of the quarter, which is a great indication for accelerated growth year-over-year in the third quarter.

Job order flow has largely returned to pre-pandemic levels, and we are also continuing to see higher fill ratios due to improved job order quality as clients are executing against an overall higher mix of critical technology initiatives. We also believe the trends we are experiencing are reflective of the growing confidence in restarting projects that may have been deferred or delayed, the scarcity of higher-end IT resources, and securing resources for new transformative initiatives.

We continue to see the acceleration of critical technology initiatives within our clients in areas such as cloud, mobile, data analytics, project, and program management, with a strong focus geared towards improving the consumer's digital experience. The investments we have made in front-end technology and process over the last several years have matured our capabilities to efficiently provide clients with highly diverse top talent, at scale, in a now boundaryless environment across the US.

A significant accelerant to our overall Technology growth has been the investments we've made over the last three years in our managed teams and solutions capabilities to provide a higher value, differentiated offering to our clients. We have

continued to add highly talented experienced resources coming out of the most respected solution providers to this dedicated team and are investing further to arm them with state-of-the-art tools and technology. Growth in this offering is outpacing that of our overall technology staffing business due to the success we have had bringing this offering to clients where we have strong long-standing partnerships. We intend on making further investments in this capability throughout 2021 and for the foreseeable future given the long-term demand environment we see for these services. We feel extremely confident in the positioning of our technology business and the ability to continue expanding our market share.

There remains broad strength in demand across virtually every industry. This was true in particular in Business Services, Financial Services and Wholesale/Retail during the second quarter. These same highlighted industries have shown resilience throughout the pandemic and have been significant contributors to our growth on a year-over-year basis.

Given the momentum we have carried into the third quarter we expect revenues in our Technology business may grow approximately 25% on a year-over-year basis, which would represent over 20% organic growth over the third quarter of 2019, pre-pandemic. We are clearly continuing to take market share which we would attribute to the lack of distractions with an operating model keenly focused on providing domestic technology solutions to world-class clients and an outstanding team of Kforcers that are executing at levels we have not experienced in our history. I could not be prouder of how our teams have responded. Their innovation combined with a lean forward and not look back attitude since the start of the pandemic has played a major role in the success Kforce is experiencing.

Our FA flex revenues were up 2.7% year-over-year in the second quarter, which included the contribution of approximately $35 million of revenue from our support of government-sponsored initiatives tied to the economic fallout and recovery efforts from the COVID-19 pandemic. The results of our FA business were consistent with our expectations. The vast majority of these projects concluded at the end of the second quarter and into the first part of July. Thus, we expect that COVID revenues could approximate five to seven million dollars in the third quarter. We made a conscious decision to not pursue business beyond our existing commitments in support of our long-standing client relationships once it became clear that the recovery was well under way. This will allow us to focus our efforts on our forward-looking FA strategy.

Our non-COVID FA Flex business declined 7.1% sequentially, per billing day, but grew 5.3% year-over-year. As we mentioned previously, we are transitioning our FA business towards more highly skilled assignments, such as analytics and decision-support roles, that are less susceptible to technological change and automation and more synergistic with our Technology footprint. We will continue to support lower-end skill sets for certain clients where we have long-standing relationships that are strategically important to Kforce's ongoing success in our Technology business. We have seen natural assignment ends of lower skilled FA roles in the first half of 2021 where strategic client relationships do not exist and expect that to continue in the third quarter and be complete by the end of the year. We expect our non-COVID FA revenues to be down in the mid-

single digits on a year-over-year basis in the third quarter due to the repositioning activities. When combined with the expected COVID revenue decline, total FA Flex may be down nearly 50% year-over-year in the third quarter.

Direct Hire revenues in the second quarter increased almost 30% sequentially, per billing day, and approximately 85% year-over-year. Direct Hire remains an important part of our service offering though we have not allocated significant investment here and it now represents approximately 3% of total revenues. Against this backdrop our second quarter results demonstrate the depth of high-quality long-standing relationships this credible and capable team possess. We expect Direct Hire revenues may see a sequential decline, which is typical during the summer months, and increase nearly 30% year-over-year in the third quarter as clients demonstrate a high degree of confidence in the recovery through the addition of full-time staff.

We are continuing to invest in strategic initiatives to better position our Firm for long term, sustainable profitable growth. Our most recent significant investment is in our Talent Relationship Management system, which went live in the first quarter. Our fully integrated CRM and TRM systems are cloud-based and seamlessly integrate with other Microsoft product offerings. As Dave highlighted, investments to further develop these tools along with enhancing capabilities in other areas, such as our managed teams and solutions offering are continuing. We believe great opportunity still exists to further enhance productivity, which will drive future profitable growth.

We have made tremendous progress advancing Kforce towards a fully integrated, technology enabled hybrid operating model to enhance the experience and life work balance of our internal teams and the interaction with our clients, candidates, and consultants. We refer to this initiative launched in May 2020 as Kforce Reimagined. Early into the pandemic it was clear to us work is something we do, not a place we go. Our future work environment in this new age we are entering will be what we are referring to as “Office Occasional” whereby our people can have maximum flexibility driven through trust and technology with a remote first approach along with the opportunity to leverage our collaborative physical office design, when desirable, for activities such as training and team building and for activities that are best done through in-person, active collaboration inclusive of client and candidate face to face interactions.

Productivity metrics continue to improve across our tenured associate base. Given the tremendous growth trends we are experiencing, most notably in our Technology business, we have begun making selective investments to increase the number of associates in our Technology business, especially in our managed teams and solutions capability. Overall capacity remains sufficient to support our well above market growth rates and should improve due to our continued investments in technology and greater enablement of communication and collaboration tools and processes that have been so successful for us since we transitioned to remote work last March.

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We have supported and retained our best people, structurally reduced our fixed costs, and are refining a more scalable model that we expect will result in positive leverage as accelerated growth continues to compound and we reimagine the future of how we work, resulting in further improving retention of our most talented associates. Our customer and employee satisfaction levels continued to be at an all-time high. We continue to carry the highest Glassdoor rating among our peers and maintain a world class net promoter score from our clients and consultants and are the most recognized firm by technology consultants per SIA.

I greatly appreciate the trust our clients, consultants and candidates have placed in Kforce. Our teams continue to inspire me daily as we work together creating something beyond special for tomorrow and into the future to position Kforce as the most desirable destination for top professionals in our industry. I will now turn the call over to Dave Kelly, Kforce's Chief Financial Officer.

DAVID M. KELLY, CHIEF FINANCIAL OFFICER

We are very pleased that second quarter revenues of $403.6 million exceeded the high end of our guidance as we experienced record organic sequential and year-over-year growth in our Technology business. Profitability levels also exceeded the high end of our guidance with record earnings per share of $1.00 in the second quarter, which represents an increase of nearly 113% year-over-year.

Our gross profit percentage in the quarter of 29.5% increased 110 basis points year-over-year as a result of a greater mix of Direct Hire revenues and an increase in overall Flex gross profit margins, which improved 30 basis points year-over-year, to 27.3%.

Flex margins in our Technology business were essentially flat as growth in our higher margin managed teams and solutions business has largely offset the slight spread compression we experienced in our traditional technology staffing business due to the strong relative growth we are seeing in our largest clients, which carry a slightly lower margin. Overall average bill rates and pay rates continue to modestly increase.

Sequentially, spreads in our Technology business expanded slightly from Q1, while overall margins improved due to seasonal taxes and lower healthcare costs compared to Q1.

Flex margins in FA expanded 180 basis points year-over-year primarily as a result of a higher margin, short term COVID project that ended in June. When looking at the underlying FA business that we are migrating towards, we are seeing early indications of improvements in Flex margins and overall average bill rates.

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As we look forward to Q3, we expect spreads in our Technology business to be stable with second quarter levels, while FA will improve sequentially from our repositioning efforts and the decline of lower margin COVID projects. Should we begin seeing wage inflation within our consultant population, which we have not yet experienced in any meaningful way, we are confident in our ability to work with our clients to appropriately align bill rates so that they can retain the valuable technology resources needed to complete their critical projects. We believe the continued rise in wages is a sign of strengthening demand for technology resources and is a long-term net positive for our business. We also continue to experience success in growing our managed teams and solutions business at a growth rate that significantly exceeds our overall technology business. This offering carries an approximately 400 basis point higher margin profile than the rest of our technology staffing business which helps stabilize overall Technology spreads and over the longer term creates an opportunity to increase margins and overall profitability.

Overall SG&A expenses decreased as a percentage of revenue by 250 basis points year-over-year due to operating leverage provided by our revenue growth, significantly improved associate productivity, the gain on the sale of our corporate headquarters facility and lower costs in areas such as lease and office expenses. Due to our strong growth, increases in performance-based pay have partially offset these reductions and are expected to continue to do so for the rest of the year.

Our second quarter operating margin was 8.2%, which is an increase of 370 basis points from 4.5% in the second quarter of 2020. The sale of our corporate headquarters in the second quarter of 2021 benefited our operating margin by 50 basis points. We believe the improving quality of our revenue stream; continued productivity improvements and ongoing lower structural operating costs will collectively allow us to continue to invest aggressively in our business to drive sustained above market growth rates while driving continued improvements in profitability levels.

As previously noted, the COVID project revenue streams will significantly decline in the second half of the year. The revenue and profitability that resulted from the COVID projects allowed us to not only sustain critical infrastructure and talent needed to maintain the growth of our business during the pandemic, but to also accelerate certain other investments which we believe will enhance future growth. These investments have been primarily focused in our Technology business, and specifically in support of further improving overall productivity and building our managed teams and solutions capabilities. Despite the falloff of these COVID revenues, we plan to sustain and potentially accelerate this investment in talent and tools, which we believe is critical to both take advantage of the existing market conditions and to enhance our longer-term growth prospects.

Third quarter operating margins of between 6.6% and 7.0% reflect a decline from Q2 levels due to the non-recurring gain from the sale of our headquarters, which benefited Q2 by 50 basis points, a 10 basis point impact from the leaseback of our headquarters and 40 to 50 basis points from the accelerated investments in tools and talent. These investments are primarily

targeted for our Technology and managed services offerings. The impact from the incremental investments is expected to last through the first quarter of 2022, while additional leaseback costs end in January 2023. We had previously stated that as revenues reach $400 million quarterly, that operating margin would be at least 7.8%. We expect to return to this margin trajectory by Q2 2022 and also to derive annual savings of $1 million to $1.5 million as we transition to our new Tampa headquarters with the expiration of the leaseback.

We will also continue to investigate additional opportunities to improve our operating model to drive additional future profitability improvements. We have had great success in rebuilding our front office technology processes and tools over the past five years, and we believe equal opportunity exists to drive efficiencies in the back office. We have recently begun assessing the opportunities in this area, which we believe could benefit operating margins by 60 basis points or more and dramatically improve how our back office supports the Firm, once this multi-year program is complete. This transformation will be planned in phases and could take up to 5 years to complete. It may involve some up-front costs in each phase. Once complete, this investment, along with the accelerated investments in our managed services capabilities, will enhance our ability to generate double digit operating margins as we grow. We look forward to sharing further details in future calls.

Our effective tax rate in the second quarter was 29.4%, which was consistent with our expectations. This included a negative impact of 280 basis points as a result of the previously announced termination of our supplemental executive retirement plan.

EBITDA in Q2 was $35.8 million, which represents an 81.5% increase from the second quarter last year. Operating cash flows were $14.1 million in the second quarter and we returned $18.1 million in capital to our shareholders via $13.4 million in share repurchases and $4.7 million in dividends. We ended the second quarter with $17.3 million in net cash.

The number of billing days are 64 days in the third quarter of 2021, which is the same number of days as the second quarter and the same number of days as the third quarter of 2020. We expect Q3 revenues to be in the range of $385 million to $393 million and earnings per share to be between 83 and 91 cents. Gross margins are expected to be between 29.0% and 29.2%, while Flex margins are expected to be between 26.8% and 27.0%. SG&A as a percent of revenue is expected to be between 21.9% and 22.1% and operating margins as I mentioned should be between 6.6% and 7.0%. Weighted average diluted shares outstanding are expected to be approximately 21.0 million for Q3, and the anticipated effective tax rate is expected to be 27.5%.

Our guidance does not consider the potential negative impact on the demand environment from a significant increase in COVID-19 variant cases, the effect, if any, of charges related to any one-time costs, costs or charges related to any pending

tax or legal matters, the impact on revenues of any disruption in government funding, or the Firm's response towards regulatory, legal or future tax law changes.

Overall, we believe we are in an exceptional place. We believe the strategic decision to focus the vast majority of our business in providing domestic technology solutions is paying dividends. The range of guidance, at the mid-point, implies organic growth in our Technology business in the 25% range. We couldn't be more excited about our future growth prospects with 85% our revenues focused in technology, which permeates every aspect of business and society, and an FA business that is directly focused on complimenting those technology efforts. Our shareholders continue to benefit from strong performance and efficient capital allocation, as exhibited by a return on invested capital of approximately 40%. Our predictable cash flows provide significant future flexibility to make investments and continue returning capital to our shareholders.

On behalf of our entire management team, I'd like to extend a sincere thank you to our teams for their efforts in outperforming market expectations through the adversity and uncertainty of the past year and a half and continuing to build on that success for the remainder of 2021 and beyond.

DAVID L. DUNKEL, CHAIRMAN AND CEO

Thank you for your interest in and support of Kforce. I would like to say thank you to each and every member of our field and corporate teams for the incredible efforts, and to our consultants and our clients, for your trust in Kforce in partnering with you and allowing us the privilege of serving you. We delivered another quarter of exceptional results and look forward to talking with you again after the third quarter.