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Q4 2022
CONFERENCE CALL

Prepared remarks from:
Joseph J. Liberatore, President, and CEO
David M. Kelly, EVP and Chief Financial Officer
Kye Mitchell, EVP and Chief Operations 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 Firm's investments in its business, its long-term growth ambitions, its expected progress towards double-digit operating margins, the Firm's expectation to capture additional market share and its preparation for the long-term regardless of the near-term macro-economic environment, the demand environment for highly skilled talent, the correlation of the secular demand drivers in the technology talent solutions space to our long-term success, the intent and ability to declare and pay quarterly dividends, and the Firm's guidance for the first quarter of 2023. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Factors that could cause actual results to differ materially include the following: business conditions; growth rate in temporary staffing and the general economy; competitive factors; risks due to shifts in the market demand; 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; changes in the service mix; 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 or 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; changes in client demand and our ability to adapt to such changes; continued performance 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 ending December 31, 2021, as well as assumptions regarding the foregoing. The terms "should," "believe," "estimate," "expect," "intend," "anticipate," "foresee," "plan," "in our view" and similar expressions and variations thereof contained in this press release identify certain of such forward-looking statements, which speak only as of the date of this press release. As a result, such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Future events and actual results may differ materially from those indicated in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements and the Firm undertakes no obligation to update any forward-looking statements.

JOE LIBERATORE, PRESIDENT AND CEO

Good afternoon. This call contains certain statements that are forward-looking. These statements are based upon current assumptions and expectations and are subject to risks and uncertainties. Actual results may vary materially from the factors listed in Kforce's public filings and other reports and filings with the Securities and Exchange Commission. We cannot undertake any duty to update any forward-looking statements. You can find additional information about our results in our earnings release and our SEC filings. In addition, we have published our prepared remarks within the Investor Relations portion of our website.

On this call, we 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 these items and events have on the financial results. Our earnings press release provides the reconciliation of differences between GAAP and non-GAAP financial measures.

Let me begin by offering some commentary about the current operating environment, which is informed by our internal metrics and discussions with clients and our associates. As we have mentioned on prior earnings calls, we experienced unprecedented demand in our technology business beginning in 2021 and continuing largely for the first half of 2022 driven by our clients' acceleration of their digital spend and transformation efforts geared towards employee engagement in a more remote-centric environment and their customer experiences. The unprecedented demand fueled the two-year growth rate in our Technology

business of approximately 44%, which yet again significantly exceeded the market benchmarks. We had previously noted a slowdown in demand during the second half of the year and more recently have seen a higher level of project scrutiny being exercised by our clients given the macroeconomic uncertainty. However, technology spend on critical technology initiatives across industries is still proceeding and provides a strong underpinning for our technology business.

We continue to have an unwavering belief and expectation that the long-term secular drivers of demand in technology spend are more present than ever, irrespective of how the economic environment plays out. The strength of the secular drivers of demand in technology accelerated coming out of the Great Recession by advancements in mobility, big data, cloud, and the rapid expansion of consumer facing technology initiatives. The pandemic has only accelerated the strategic imperative for all businesses to further digitize their business to enhance consumer and employee experiences. Technology is not optional and is core to all business strategies regardless of industry and we don't see that changing. While our business is not immune from the impacts of economic turbulence, trends during periods of economic softness suggest that technology spend is increasingly resilient and less correlated than other areas where companies utilize flexible talent. This is informed by our performance in the Great Recession where our technology business was down approximately 7% versus general staffing market declines of roughly 25 to 30% and the 2020 pandemic where our technology business was virtually flat in comparison to the general staffing market which experienced 10-15% declines.

We also believe that our focus on organic growth for the last 15 years and the divestiture of non-core businesses has dramatically sharpened our focus and contributed to our sustained success. It has also resulted in a clean balance sheet with virtually no debt and allowed us to return a tremendous amount of capital to our shareholders. Today's announcement of a 20% increase in our dividend, the fifth increase in four years, and an increase in our share repurchase authorization is further evidence of our confidence in our business and intention in prioritizing return of capital going forward.

We have significantly improved our profitability levels as evidenced by the nearly 300 bps increase in operating margins since 2016. This has been accomplished while also reducing our concentration of cyclically sensitive Direct Hire revenues to less than 3% of revenues in the fourth quarter of 2022 versus 7.5% immediately preceding the Great Recession and 19.4% preceding the dot com recession. The quality of our business and revenue stream continues to improve. To that point, 2022 was an extremely successful year for Kforce. We met the financial objectives we outlined at the beginning of the year, despite the softening in demand we began to experience in the second half of 2022. We grew revenues in our Technology business by 18% on top of more than 22% growth in 2021. In addition, we further improved our profitability by 20% in 2022 over 2021 levels. Strategically, we advanced our integrated sales strategy to further integrate our managed teams and project solutions capability within our Technology business. We advanced the repositioning of our FA business toward more highly skilled positions. Our team made significant progress on the multi-year effort to transform our back office. And we fully transitioned to a hybrid work environment across all our markets and opened our new state-of-the-art headquarters in Tampa. Our Office Occasional work environment provides our people with maximum flexibility and choice in designing their workdays that is grounded in our trust in them and supported by technology. This has resulted in improved retention of our associates and positions Kforce as a destination for top talent. Kforce is proud to be certified as a Great Place to Work, which distinguishes Kforce as one of the best companies to work for in the country.

As we look ahead to 2023, we will continue to make the necessary investments in our business to further advance our integrated sales strategy and the transformation of our back office to sustain our long-term growth ambitions and attain double digit operating margins.

We have built a solid foundation at Kforce and are partnering with world-class companies to solve complex problems and help them transform their businesses. There is simply no other market we would want to be focused in other than the domestic technology talent solutions space. In a macro sense, the near-term is uncertain, but our path forward couldn't be clearer, and we will remain consistent with the principles under which we have been operating so successfully. We have a solid, highly tenured team in place with the expectation of continuing to capture additional market share and are prepared for the long-term and whatever the near-term environment may bring. We have a long track record of expanding our market share, particularly in times of market turbulence, and intend on continuing to deliver above-market performance.

I am thankful for the tireless efforts of all Kforcers', from our incredible leadership team, our sales and delivery associates to our revenue enablement teams and our Executive Leadership team who have been together through multiple economic cycles. I could not be prouder of what this team has achieved in executing our strategy over many years.

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

KYE MITCHELL, EVP AND CHIEF OPERATIONS OFFICER

Thank you, Joe.

Overall revenues grew slightly more than 2% year-over-year in the fourth quarter. Our Technology business, which continues to be the primary driver of our success, performed slightly ahead of our expectations with year-over-year growth of nearly 8% in the fourth quarter and 18% growth for the full year of 2022.

Our technology business now has an annual run rate of $1.5 billion and represents approximately 90% of our total revenues. We believe our strong, consistent outperformance of the market over many years has resulted from our execution and dedicated focus in the domestic technology market.

As Joe mentioned in his commentary, our recent operating trends and activity levels have experienced a degree of softening as clients appear to be more cautious given the uncertain macro-economic environment. This trend began in the second half of 2022 and has continued into the new year. Sales cycles are becoming longer due to extended interview processes and more scrutiny around budgets. Year-end assignment attrition was also slightly higher compared to the last few years. However, our clients continue to pursue essential technology projects, even as they become cautious due to the economic uncertainty.

Overall average bill rates in Technology continued to improve with 1.7% sequential growth to approximately $90 per hour. While the pace of bill rate growth may moderate in the near-term, we expect that the continued scarcity of highly skilled technology talent will drive continued bill rate expansion over time. Further, as our portfolio of managed teams and solutions engagements continues to grow, we would expect average bill rates to expand along with improved revenue visibility and margins.

Critical technology initiatives continue with our clients in areas of cloud, digital, UI/UX, data analytics, project, and program management. Conversations with our clients suggest that they will continue to prioritize significant technology investments to remain competitive regardless of the economic environment. Many of our engagements are multi-year initiatives that we

expect to continue despite any changes in the macroeconomic environment. Clients continue to look to us to provide managed teams and project solutions engagements. Our integrated sales strategy allows our people to leverage their long-term relationships in this space as we seek to solve our clients' challenges. Clients are looking for us to continue to move up the value chain providing more complex solutions. We feel an integrated strategy allows us to leverage our existing sales, recruiters and consultants to effectively deliver in the solutions space.

Our year-over-year growth was driven by a diverse set of industries. Sequentially, we are still seeing broad-based demand, but with some select softening. We have not yet seen any particular industry vertical as a whole experience acute reductions in demand. This remains true through the first month of 2023. We have a very diverse client portfolio of large, market-leading customers that are prioritizing technology spend, which we believe will be a positive catalyst to our long-term, sustainable, above-market growth. While we may be susceptible to short-term disruption with specific clients or industry-specific dynamics, we expect our diversification and concentration in world-class companies to serve our shareholders well over the long-term.

We expect first-quarter revenues in our Technology business to grow in the low to mid-single digits year-over-year and decline in the mid-single digits sequentially, which contemplates the softness we experienced at the beginning of the year

Our overall FA business declined 26.4% year-over-year, which reflects the continued runoff of business we are no longer pursuing due to our repositioning efforts. Sequentially, our FA business experienced 4.7% growth primarily due to a short-term project in support of Hurricane Ian recovery efforts with a strategic client. This project essentially ended in late January. We expect revenues to decline in the low to mid-teens sequentially and year-over-year to be down in the mid 20% range. We continue to support our FA business and improve its alignment with our Technology business. Evidence of this progress is that our average bill rate in FA, excluding the Hurricane Ian project, in the fourth quarter of 2022 is $51 compared to $37 in the fourth quarter of 2019.

As Joe mentioned, direct hire comprises less than 3% of total revenues. We made the intentional decision to curtail investment to grow our direct hire business due to the volatility we typically see in this revenue stream in uncertain economic times. Our expectations for direct hire are for continued declines in the first quarter. We are pleased that we are not reliant on this business to make significant contributions to our growth and profitability. We believe the scalability of a flexible model is the best foundation for predictable, sustainable and profitable growth.

The investments we continue to make in our strategic priorities along with process improvements to increase productivity levels in our associate population provides capacity to continue to grow. While capacity exists, we have continued to make targeted investments in associate headcount to drive sustainable growth. This investment is predominantly in our managed teams and project solutions capabilities within our Technology business as we evolve to meet customer requests and grow share. We have supported and retained our best people and we have made significant changes to give our employees flexibility and choice in our office-occasional work environment.

As mentioned last quarter, Kforce has earned Glassdoor's OpenCompany Designation, which recognizes employers that proactively promote and embrace workplace transparency through sharing workplace culture, being responsive to all reviews, and sharing our updates related to diversity, equity and inclusion efforts along with our ESG priorities.

I am grateful for the trust our clients, consultants and candidates have in Kforce. I would like to thank our amazing people who helped our fourth quarter results and impressive 2022 performance. They are the backbone of our success. I will now turn the call over to Dave Kelly, Kforce's Chief Financial Officer.

DAVID M. KELLY, EVP AND CHIEF FINANCIAL OFFICER

We are pleased with our performance in 2022 as full year revenues of approximately $1.71 billion increased nearly 8% year-over year, led again by market share gains in our Technology business. GAAP earnings per share were $3.68. Normalized for impairment charges related to our joint venture, adjusted earnings per share of $4.25 improved approximately 20% year-over-year.

Fourth quarter revenues of $419.7 million grew 2.3% year-over-year and adjusted earnings per share were $0.93.

Overall gross margins decreased 70 basis points year-over-year and 50 basis points sequentially to 28.5% in the fourth quarter principally due to a lower mix of direct hire revenue.

Flex margins of 26.1% in our Technology business, which met our expectations in the fourth quarter, increased 10 basis points sequentially and declined 30 basis points year-over-year. For the full year 2022, Flex margins in Technology of 26.4% were unchanged from 2021 levels. Top technology talent remains scarce, and we have seen consistent wage increases over many years. We have had good success passing through these increases to our clients due to the critical work our consultants perform. This has led to relative stability in the margin profile of our Technology business throughout economic expansions and declines, which is our expectation as we move forward.

Flex margins in our FA business declined 210 basis points sequentially as a result of a short-term lower margin project associated with Hurricane Ian relief.

As we look forward to Q1, we expect spreads in our Technology business to be stable with fourth quarter levels, though overall Technology Flex margins will be lower due to seasonal payroll tax resets. Overall gross margins are also expected to decline due to lower direct hire revenues. While we believe that clients may be slightly more price sensitive in the current macro environment, we believe our nearly 90% concentration in technology provides relative margin stability over the long term due to the desire by our clients to increasingly engage us for projects critical to their ongoing success. We also expect that business in the managed teams and project solutions space should remain resilient in this environment, and those initiatives bring higher margins to the overall portfolio.

Overall SG&A expenses, as adjusted for the impairment charges, as a percentage of revenue decreased by 90 basis points year-over-year, which is predominately driven by lower performance-based compensation, as it was elevated in 2021 due to extraordinary growth levels. We have a high degree of variable compensation within our plans, which creates operating leverage as growth slows. We have also been successful at driving greater cost efficiencies from our real estate portfolio given our office-occasional model, which has allowed us to reduce overall square footage by approximately 40%. As leases expire, we will continue to transition to the new office footprint, which will lead to further declines in real estate costs. We expect SG&A expenses as a percentage of revenue to increase sequentially due to the annual payroll tax reset in the first quarter.

Our fourth quarter operating margin, as adjusted for the impairment charges, was 6.2% and improved 20 basis points over the fourth quarter of 2021 as a result of the reduction in SG&A expense. Our effective tax rate in the fourth quarter was 23.1%, which was higher than we anticipated because of a lower tax benefit on the vesting of restricted stock and other year-end tax adjustments.

Operating cash flows were $12.7 million and, as expected, were negatively impacted by the final settlement of $20 million related to payroll taxes previously deferred under the CARES Act.

We generated $141 million in EBITDA in 2022, which represents an increase of 11.4% year-over-year. Operating cash flows

were $90.8 million for 2022. When adjusted for cash outflows in 2022 related to the settlement of our terminated pension plan and the deferred payroll taxes, operating cash flows would have been approximately $130 million. We returned slightly in excess of 100% of operating cash flows in 2022 to our shareholders through $24 million in dividends and nearly $68 million in open market repurchases. Our return on invested capital was approximately 46% in the fourth quarter.

As Joe mentioned, our Board of Directors approved a 20% increase to our dividend to $1.44 per share and increased our share repurchase authorization to $100 million.

Since we initiated our dividend in 2014, we have now increased it 360%. The current dividend yield is 2.6%. In addition, since 2007, we have reduced our weighted average shares outstanding from 42.3 million to 20.5 million, or slightly more than 50%. All in, we have returned in excess of $830 million in capital to our shareholders since 2007, which has represented approximately 75% of the cash we generated, while significantly expanding our business. The increase in our dividend and share repurchase authorization demonstrates both our financial flexibility due to the strength of our balance sheet and our confidence in our organic growth model. We remain committed to returning capital to our shareholders regardless of the economic climate.

With respect to guidance, the first quarter has 64 billing days, which is three additional days than the fourth quarter of 2022 and the same as the first quarter of 2022. We expect Q1 revenues to be in the range of $406 million to $414 million and earnings per share to be between 78 cents and 86 cents. First quarter earnings per share is impacted by approximately 15 cents due to seasonal impacts of annual payroll tax resets.

Our guidance does not consider the potential impact of unusual or nonrecurring items that may occur.

Our performance has put us in an excellent position to continue to make incremental investments in our business even in an uncertain environment. These include selective additions in our managed teams and project solutions capability and continued investments in our back-office transformation efforts. We believe these ongoing investments will benefit our shareholders in the long-term and are important drivers to our attainment of double-digit operating margins.

Overall, we believe our strategy has put us in an exceptional place and we are fully prepared for the various economic possibilities that may lie ahead.

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