



Kforce Reports First Quarter Revenues of \$334.0 Million and EPS of \$0.23; Year-Over-Year Flex Revenue Growth Accelerates to 4.2%

May 2, 2017

TAMPA, Fla., May 02, 2017 (GLOBE NEWSWIRE) -- Kforce Inc. (Nasdaq:KFRC), a provider of professional staffing services and solutions, today announced results for its first quarter of 2017. Revenues for the quarter ended March 31, 2017 were \$334.0 million compared to \$326.0 million for the quarter ended December 31, 2016, an increase of 2.5%, and compared to \$322.2 million for the quarter ended March 31, 2016, an increase of 3.7%. Net income for the quarter ended March 31, 2017 was \$5.9 million, or \$0.23 per share, as compared to \$9.2 million, or \$0.36 per share, for the quarter ended December 31, 2016, and compared to \$3.7 million, or \$0.14 per share, for the quarter ended March 31, 2016.

David L. Dunkel, Chairman and CEO, said, "We are pleased with the progress we have made to reaccelerate year-over-year revenue growth rates in each of our Flex businesses in the first quarter of 2017 compared to the fourth quarter of 2016. Our view of the strength of the demand environment within our lines of business, especially in Tech, has not changed. We believe the secular drivers of demand in Tech continue to intensify as companies increasingly look to technology to provide internal operating efficiencies, enhance competitive position and enable sustained market relevance in today's rapidly changing and evolving marketplace. Our focus continues to be on further accelerating our top line growth in an increasingly competitive market and making prudent investments in our business to generate long-term shareholder value."

Joseph J. Liberatore, President, said, "We believe we are pursuing the mix of business that will lead to the greatest long-term success. We remain very focused on the actions necessary to further accelerate revenue growth, particularly in our Tech Flex business. We are very excited to have gone live in April 2017 with the initial pilot of our new CRM system, which we anticipate to be fully deployed this year. This is a significant component of a multi-year effort to replace and upgrade our technology platforms geared towards better equipping our people to deliver exceptional service to our clients and consultants and building upon other investments to enhance associate productivity."

Mr. Liberatore noted additional operational results for the first quarter include:

- Flex revenues of \$322.5 million in Q1 '17 increased 4.2% from \$309.6 million in Q1 '16.
- Quarterly year-over-year growth rates in Flex revenues for Tech, FA and GS were 2.7%, 7.5% and 6.6%, respectively.
- Direct Hire revenues of \$11.5 million in Q1 '17 decreased 8.4% from \$12.6 million in Q1 '16.

David M. Kelly, Chief Financial Officer, said, "We expect to continue to invest in our business to take advantage of the positive demand environment. We remain confident that we will meet our 7.5% operating margin target when \$1.6 billion in annualized revenue is reached. We also still expect to achieve an operating margin of at least 6.3% at \$1.4 billion in annualized revenue. We are pleased to announce that our Board of Directors declared a second quarter cash dividend on Kforce common stock of \$0.12 per share. The cash dividend will be payable on June 23, 2017 to shareholders of record as of the close of business on June 9, 2017."

Highlights for the first quarter include:

- Flex gross profit margin decreased 70 basis points to 26.6% in Q1 '17 from 27.3% in Q1 '16.
- Selling, general and administrative expense as a percentage of revenues for Q1 '17 was 25.4% which is down 110 basis points as compared to 26.5% in Q1 '16.
- Adjusted EBITDA in Q1 '17 was \$14.6 million as compared to \$13.7 million in Q1 '16.

Looking forward to the second quarter of 2017, there will be 64 billing days, which is the same as the preceding and prior year quarters. Current estimates for the second quarter of 2017 are:

- Revenues of \$342 million to \$347 million
- Earnings per share of \$0.45 to \$0.47
- Gross profit margin of 30.2% to 30.4%
- Flex gross profit margin of 27.5% to 27.7%
- SG&A expense as a percent of revenue of 23.8% to 24.0%
- Operating margin of 5.7% to 6.0%
- Effective tax rate of 38.4%

On Tuesday, May 2, 2017, Kforce will host a conference call to discuss these results. The call will begin at 5:00 p.m. Eastern Time. The prepared remarks for this call are available on the Investor Relations page of the Kforce Inc. website (<http://investor.kforce.com/>) in the Download Library under Shareholder Tools.

The dial-in number is (877) 344-3890. The conference passcode is Kforce. The replay of the call will be available from 8:00 p.m. EDT, Tuesday, May 2, 2017 through May 9, 2017 by dialing (855) 859-2056, passcode 6054056.

This call is being webcast by Shareholder.com and can be accessed at Kforce's web site at www.kforce.com (select "Investor Relations"). The webcast replay will be available until May 9, 2017.

About Kforce

Kforce (Nasdaq:KFRC) is a professional staffing and solutions firm providing temporary and permanent staffing solutions in the skill areas of technology and finance & accounting. Backed by nearly 2,800 associates and over 11,000 consultants on assignment, Kforce is committed to "Great People = Great Results" for

our valued clients and consultants. Kforce operates with 61 offices located throughout the United States and one office in the Philippines. For more information, please visit our Web site at <http://www.kforce.com>.

The Kforce Inc. logo is available at <http://www.globenewswire.com/newsroom/prs/?pkgid=3749>.

Certain of the above statements contained in this press release, including earnings projections, are forward-looking statements that involve a number of risks and uncertainties. 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 and growth in the staffing industry and general economy; competitive factors, risks due to shifts in the market demand; a reduction in the supply of candidates for temporary employment or the Firm's ability to attract such candidates; the success of the Firm in attracting and retaining revenue-generating talent; changes in the service mix; ability of the Firm to repurchase shares; the effect of adverse weather conditions; changes in our effective tax rate; changes in government regulations, laws and policies that are adverse to our businesses; risk of contract performance, delays or termination or the failure to obtain awards, task orders or funding under contracts; changes in client demand for our services such as the resulting impact of any significant organizational changes within our largest clients; and the risk factors listed from time to time in the Firm's reports filed with the Securities and Exchange Commission, including the Firm's Form 10-K for the fiscal year ending December 31, 2016, as well as assumptions regarding the foregoing. In particular, the Firm makes no assurances that the estimates of continuing operations will be achieved or that we will continue to increase our market share, successfully manage risks to our revenue stream, successfully put into place the people and processes that will create future success or further accelerate our revenue. The words "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. The Firm undertakes no obligation to publicly update or revise any forward-looking statements. As a result, such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those indicated in the forward-looking statements as a result of various factors. Readers are cautioned not to place undue reliance on these forward-looking statements.

Kforce Inc.

Summary of Operations

(In Thousands, Except Per Share Amounts)

(Unaudited)

| | Three Months Ended | | |
|---|--------------------|---------------|---------------|
| | Mar. 31, 2017 | Dec. 31, 2016 | Mar. 31, 2016 |
| Revenue by function: | | | |
| Technology | \$ 222,045 | \$ 216,807 | \$ 216,588 |
| Finance & accounting | 87,295 | 85,794 | 82,492 |
| Government solutions | 24,652 | 23,397 | 23,121 |
| Total revenue | 333,992 | 325,998 | 322,201 |
| Direct costs of services | 236,857 | 226,350 | 225,012 |
| Gross profit | 97,135 | 99,648 | 97,189 |
| GP % | 29.1 % | 30.6 % | 30.2 % |
| Flex GP % | 26.6 % | 28.1 % | 27.3 % |
| Selling, general & administrative expenses | 84,678 | 82,009 | 85,455 |
| Depreciation & amortization | 2,050 | 2,047 | 2,327 |
| Income from operations | 10,407 | 15,592 | 9,407 |
| Other expense, net | 1,185 | 825 | 668 |
| Income before income taxes | 9,222 | 14,767 | 8,739 |
| Income tax expense | 3,320 | 5,528 | 5,089 |
| Net income | \$ 5,902 | \$ 9,239 | \$ 3,650 |
| Earnings per share - diluted | \$ 0.23 | \$ 0.36 | \$ 0.14 |
| Weighted average shares outstanding - diluted | 25,509 | 25,821 | 26,842 |
| Adjusted EBITDA | \$ 14,562 | \$ 19,283 | \$ 13,712 |
| Billing days | 64 | 61 | 64 |

Kforce Inc.

Consolidated Balance Sheets

(In Thousands)

(Unaudited)

| | March 31, 2017 | December 31, 2016 |
|--------|----------------|-------------------|
| ASSETS | | |

Current Assets:

| | | |
|---|------------|------------|
| Cash and cash equivalents | \$ 2,738 | \$ 1,482 |
| Trade receivables, net of allowances | 227,634 | 206,361 |
| Income tax refund receivable | 898 | 172 |
| Prepaid expenses and other current assets | 10,709 | 10,691 |
| Total current assets | 241,979 | 218,706 |
| Fixed assets, net | 42,732 | 43,145 |
| Other assets, net | 32,767 | 30,511 |
| Deferred tax assets, net | 21,991 | 23,449 |
| Intangible assets, net | 3,556 | 3,642 |
| Goodwill | 45,968 | 45,968 |
| Total assets | \$ 388,993 | \$ 365,421 |

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

| | | |
|--|-----------|-----------|
| Accounts payable and other accrued liabilities | \$ 34,212 | \$ 37,230 |
| Accrued payroll costs | 45,603 | 44,137 |
| Other current liabilities | 1,920 | 1,765 |
| Income taxes payable | 843 | 221 |
| Total current liabilities | 82,578 | 83,353 |
| Long-term debt - credit facility | 131,966 | 111,547 |
| Long-term debt - other | 3,734 | 3,984 |
| Other long-term liabilities | 45,508 | 44,801 |
| Total liabilities | 263,786 | 243,685 |

Commitments and contingencies

Stockholders' Equity:

| | | |
|--|------------|------------|
| Preferred stock | — | — |
| Common stock | 713 | 713 |
| Additional paid-in capital | 431,345 | 428,212 |
| Accumulated other comprehensive income | 179 | 184 |
| Retained earnings | 177,199 | 174,967 |
| Treasury stock, at cost | (484,229) | (482,340) |
| Total stockholders' equity | 125,207 | 121,736 |
| Total liabilities and stockholders' equity | \$ 388,993 | \$ 365,421 |

Kforce Inc.

Key Statistics

(Unaudited)

| | Q1 2017 | Q4 2016 | Q1 2016 |
|-----------------------------|------------|------------|------------|
| Total Firm | | | |
| Flex revenue (000's) | \$ 322,487 | \$ 314,714 | \$ 309,636 |
| Hours (000's) | 5,713 | 5,598 | 5,451 |
| Flex GP % | 26.6 % | 28.1 % | 27.3 % |
| Direct Hire revenue (000's) | \$ 11,505 | \$ 11,284 | \$ 12,565 |
| Placements | 823 | 876 | 912 |
| Average fee | \$ 13,981 | \$ 12,891 | \$ 13,785 |
| Billing days | 64 | 61 | 64 |
| Technology | | | |
| Flex revenue (000's) | \$ 216,886 | \$ 212,437 | \$ 211,209 |
| Hours (000's) | 3,245 | 3,152 | 3,129 |
| Flex GP % | 25.8 % | 27.5 % | 26.7 % |
| Direct Hire revenue (000's) | \$ 5,159 | \$ 4,370 | \$ 5,379 |
| Placements | 294 | 260 | 317 |
| Average fee | \$ 17,537 | \$ 16,831 | \$ 16,992 |
| Finance & Accounting | | | |
| Flex revenue (000's) | \$ 80,949 | \$ 78,880 | \$ 75,306 |

| | | | |
|-----------------------------|-----------|-----------|-----------|
| Hours (000's) | 2,468 | 2,446 | 2,322 |
| Flex GP % | 27.6 % | 29.1 % | 28.7 % |
| Direct Hire revenue (000's) | \$ 6,346 | \$ 6,914 | \$ 7,186 |
| Placements | 529 | 616 | 595 |
| Average fee | \$ 12,002 | \$ 11,230 | \$ 12,078 |
| Government Solutions | | | |
| Flex revenue (000's) | \$ 24,652 | \$ 23,397 | \$ 23,121 |
| Flex GP % | 29.9 % | 30.3 % | 28.4 % |

Kforce Inc.

Revenue Growth Rates

(Per Billing Day)

(Unaudited)

Year-Over-Year Growth Rates

(Per Billing Day)

| | Q1 2017 | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 |
|------------------|----------|----------|----------|----------|----------|
| Tech Flex | 2.7 % | 1.4 % | (2.7)% | (2.9)% | (0.3)% |
| Tech Direct Hire | (4.1)% | (13.1)% | (10.2)% | (18.2)% | 1.8 % |
| Total Tech | 2.5 % | 1.1 % | (2.8)% | (3.3)% | (0.2)% |
| FA Flex | 7.5 % | 2.1 % | (0.5)% | 5.5 % | 12.0 % |
| FA Direct Hire | (11.7)% | (15.4)% | (6.9)% | 3.4 % | 2.8 % |
| Total FA | 5.8 % | 0.4 % | (1.2)% | 5.3 % | 11.1 % |
| Total Staffing | 3.4 % | 0.9 % | (2.4)% | (1.1)% | 2.7 % |
| GS | 6.6 % | 4.0 % | 10.1 % | 4.2 % | (12.1)% |
| Total Firm | 3.7 % | 1.1 % | (1.5)% | (0.7)% | 1.5 % |

Kforce Inc.

Non-GAAP Financial Measures

(In Thousands, Except Per Share Amounts)

(Unaudited)

The following non-GAAP financial measures presented may not provide information that is directly comparable to that provided by other companies, as other companies may calculate such financial results differently. The Company's non-GAAP financial measures are not measurements of financial performance under GAAP and should not be considered as alternatives to amounts presented in accordance with GAAP. The Company does not consider these non-GAAP financial measures to be a substitute for, or superior to, the information provided by GAAP financial results. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measures is provided below.

Adjusted EBITDA

"Adjusted EBITDA", a non-GAAP financial measure, is defined by Kforce, and consistent with the definition included in our credit facility, as net income before depreciation and amortization, stock-based compensation expense, interest expense, net and income tax expense and is a key metric in our covenant calculations. Adjusted EBITDA should not be considered a measure of financial performance under GAAP. Items excluded from Adjusted EBITDA are significant components in understanding and assessing our past and future financial performance, and this presentation should not be construed as an inference by us that our future results will be unaffected by those items excluded from Adjusted EBITDA. Adjusted EBITDA is a key measure used by management to assess our operations including our ability to generate cash flows and our ability to repay our debt obligations and management believes it provides a good metric of our core profitability in comparing our performance to our competitors. Consequently, management believes it is useful information to investors.

| | Three Months Ended | | |
|----------------------------------|--------------------|---------------|---------------|
| | Mar. 31, 2017 | Dec. 31, 2016 | Mar. 31, 2016 |
| Net income | \$ 5,902 | \$ 9,239 | \$ 3,650 |
| Depreciation & amortization | 2,103 | 2,094 | 2,337 |
| Stock-based compensation expense | 2,064 | 1,663 | 1,944 |
| Interest expense, net | 1,173 | 759 | 692 |
| Income tax expense | 3,320 | 5,528 | 5,089 |
| Adjusted EBITDA | \$ 14,562 | \$ 19,283 | \$ 13,712 |

Free Cash Flow

"Free Cash Flow", a non-GAAP financial measure, is defined by Kforce as net cash (used in) provided by operating activities determined in accordance with GAAP, less capital expenditures. Management believes this provides an additional way of viewing our liquidity that, when viewed with our GAAP results, provides a more complete understanding of factors and trends affecting our cash flows and is useful information to investors as it provides a measure of the amount of cash generated from the business that can be used for strategic opportunities including investing in our business, making acquisitions, repurchasing common stock or

paying dividends. Free cash flow has limitations due to the fact that it does not represent the residual cash flow available for discretionary expenditures. Therefore, we believe it is important to view free cash flow as a complement to our financial statements.

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | 2017 | 2016 |
| Net income | \$ 5,902 | \$ 3,650 |
| Non-cash provisions and other | 6,932 | 8,704 |
| Changes in operating assets/liabilities | (23,347) | (9,013) |
| Net cash (used in) provided by operating activities | (10,513) | 3,341 |
| Capital expenditures | (2,272) | (1,294) |
| Free cash flow | (12,785) | 2,047 |
| Change in debt | 20,419 | 22,982 |
| Repurchases of common stock | (2,887) | (22,084) |
| Cash dividend | (3,037) | (3,146) |
| Other | (454) | (376) |
| Change in cash | \$ 1,256 | \$ (577) |

AT THE FIRM

Michael R. Blackman

Chief Corporate Development Officer

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[Primary Logo](#)

Source: Kforce Inc.

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