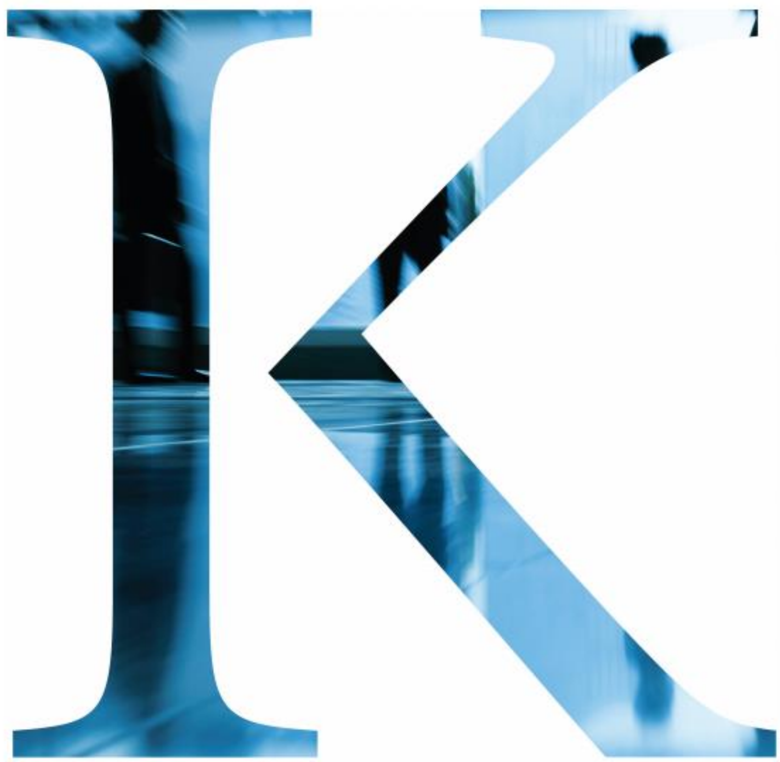
KFORCE®

Q3 2017
CONFERENCE CALL

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



Great People = Great Results®

KFORCE®

THIRD QUARTER 2017 FINANCIAL RESULTS
CONFERENCE CALL, OCTOBER 31, 2017
PREPARED REMARKS

DAVID L. DUNKEL, CHAIRMAN AND CEO

You can find additional information about Kforce in our 10-K, 10-Q and 8-K filings with the SEC. We also provide substantial disclosure in our earnings release to assist in better understanding our performance and to improve the quality of this call. In addition, we have published our prepared remarks within the Investor Relations portion of our website. We have provided an additional table in our press release to reconcile our GAAP results with adjusted results, which is provided to give you greater clarity into operating trends.

Adjusted results reflect $342.1 million in revenue and Earnings per Share of 45 cents. The adjustments reflect the exclusion of hurricane impacts, the sale of our international operations in the Philippines to the management team and costs related to organizational alignment to serve our largest strategic clients. The remainder of our prepared remarks will reference adjusted results unless otherwise noted.

We are pleased with the progress we are making towards our long-term goals and results for the third quarter. Notably, we were able to meaningfully accelerate year-over-year revenue growth rates and improve both gross margins and operating margins. Our success in accelerating revenue growth was driven primarily by Tech Flex and the services portion of Kforce Government Solutions business, which grew year-over-year by 3.6% and 12.7%, respectively, on a billing day basis. Our Q4 guidance contemplates tech flex accelerating to 5%, which Joe will address later in the call.

The revenue impact from the storms was only about $1.0 million; however, the combined impact on EPS of the lost revenue and the actions we took in response was approximately 5 cents. This disproportionate cost was driven by our decision to prioritize the care and safety of our core associates and consultants by continuing to compensate them while our clients were closed and providing additional support to those with more critical needs. We also felt compelled to more broadly support the communities we live in through a $1.0 million charitable donation to the Red Cross and other charities. I am extremely grateful for the unwavering efforts of our employees who persevered and ensured that our consultants and clients were well cared for. They rallied to help team members who lost their homes to flood waters, bring critical supplies to those without power for weeks and ship and airlift supplies to Puerto Rico to assist those who are still suffering.

We are encouraged by the recent trends in our Tech Flex business. The strength in the demand environment has not changed. We believe the secular drivers remain intact as companies increasingly look to technology to provide internal operating efficiencies, enhance competitive position and enable sustained market relevance in today's rapidly evolving marketplace. Technology initiatives transcend all industries, companies of all sizes, and are increasingly focused on customer-facing applications. Competitive pressures and the need to innovate continues to intensify and technology investments in areas such as big data, artificial intelligence and machine learning receive increasing prioritization. The areas of highest demand include mobility, cloud computing, cyber security, e-commerce, machine learning, and digital marketing. The shorter-term project nature of technology requires specific skill sets, which are increasingly driving companies to a greater use of flexible resources.

Our KGS business had a very successful quarter as they secured two strategic prime contract wins under the T4NG contract vehicle of the US Department of Veterans Affairs with a total award value of nearly $100 million, which we expect will be realized over five years. These prime contract wins serve to increasingly build a solid, more profitable, revenue base moving forward. This business now has long-term services contracts in place capable of generating approximately $30 million per quarter on average.

From an operating perspective, we are also pleased with both the improvements we saw during the quarter in flex margins, driven by improved pricing discipline, as well as the improving productivity within our revenue generating population. Continued emphasis in these areas will be critical in meeting our longer-term goals.

Over the last two years, we have been executing a strategic plan to refine our operating structure, improve our sales efforts and enable our associates with new technology. We are making progress and are committed to our plan.

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The third quarter brought little additional clarity on key political policy initiatives, including immigration reform, healthcare reform, and financial de-regulation. Corporate tax reform took a step forward with the passing of the budget. If enacted as proposed, it would have a significant positive impact on Kforce financial results. While there is still great uncertainty as to the details and impact of any potential reform, we believe the balance of any changes and the increasing trend on GDP, now at 3.0% for the third quarter, should be a net positive for Kforce and our industry.

I will now turn the call over to Joe Liberatore, President, who will provide further details on our Q3 operating results. Dave Kelly, Chief Financial Officer, will then add further color on our Q3 operating trends and financial results as well as provide guidance on Q4.

JOSEPH LIBERATORE, PRESIDENT

Thank you Dave and thanks to all of you for your interest in Kforce.

As we begin to see the benefits from the structural changes and investments we have made over the past two years, revenue growth rates are beginning to improve. Total Firm revenues, adjusted for lost revenue from the two hurricanes, grew 3.3% on a year-over-year billing day basis.

We are pleased that our Tech Flex unit, which accounts for roughly two-thirds of total revenues, grew 3.6% year-over-year on a billing day basis. We continued to benefit in the third quarter from a positive trend in longer assignment lengths and new assignment starts volume remained solid. Consultants on assignment increased each month of the quarter and into October, which should also benefit growth prospects in the fourth quarter.

Fortune 500 companies continue to be the largest consumers of flexible technology talent, and represent a significant majority of our revenues. We believe continued focus within growing industry verticals should allow us to expand the breadth of our service offerings to deepen our relationships with these larger, sophisticated buyers. Larger customers continue to concentrate spend with partners, such as Kforce, that can meet their needs nationally as well as ensure compliance with internal and external policies and regulations. We have been working to diversify our portfolio beyond our largest clients, and more deeply into other Fortune 500 customers where we have an established relationship. Much of the revenue growth in the quarter was a result of these efforts, as large client opportunities outside of our 25 largest clients accounted for the greatest share of growth in the quarter.

This strategy is well supported by our mature centralized delivery platform which allows us to deliver consultants at scale across the United States. This capability, combined with improved execution in our field offices, has also allowed us to increase productivity levels again this quarter. While these gains are welcome, we believe significant additional improvement is possible.

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During the quarter, we experienced year-over-year growth in 6 of our top 10 industries. Communications, manufacturing, and energy performed particularly well, as well as certain professional services and solutions companies supporting the Federal Government.

For the fourth quarter, we expect Tech Flex revenues to improve sequentially and for year-over-year growth rates to accelerate from Q3 levels to approximately 5% on a billing day basis. As Dave noted, we recently sold our international operations in the Philippines, which took place in late September. Excluding this business from our baseline, our core domestic tech staffing revenue growth rate is projected to be closer to 6% in the fourth quarter.

Our FA Flex business, which represents 23% of our total revenues, declined slightly on a sequential basis, but increased 4.6% year-over-year on a billing day basis. From an industry perspective, 6 out of our top 10 industries experienced year-over-year growth, including financial services, business services, retail and energy. We experienced a slower than expected seasonal ramp in new assignments as the third quarter progressed, but saw an acceleration in activity in September and October. We expect to resume sequential growth in Q4, but may see a slight decline year-over-year due to the lower baseline from the end of the third quarter.

Revenues for Kforce Government Solutions increased 13.9% sequentially and 0.6% year-over-year on a billing day basis. As Dave mentioned, KGS was successful in winning two strategic prime awards in the third quarter that are expected to provide a growth catalyst and a solid base to continue to build upon as we head into the fourth quarter of 2017 and beyond. This team has worked hard to improve its ability to win prime business and we are beginning to see the payoff. As KGS ramps headcount in this new business during Q4, we expect double digit sequential growth. This predictable revenue stream also should allow for significant growth in 2018 for this business, provided it can win the only significant re-compete, which constitutes 20% of its revenue base, scheduled for next year in Q1. We have a high degree of confidence in success with this re-compete, as 2017 re-competes were 100% successful.

Direct Hire revenues, which represents roughly 3.5% of total Firm revenue, declined 10.9% sequentially and 4.9% year-over-year. Our Direct Hire capabilities are an important element of our strategy and our objective is to meet the talent needs of our clients through whatever means they prefer. The fourth quarter is usually a seasonal low point, and we expect both sequential and year-over-year declines in the fourth quarter.

We are focused on making investments that provide our revenue generating talent with the necessary training, methodologies and digitally enabled tools to engage in more strategic conversations and allow us to elevate the value we are bringing to our clients and consultants. These new tools should also contribute to productivity improvements. We completed the rollout of our new customer relationship management system during the third quarter and will continue to enhance that solution going forward.

Excluding any impacts from our international operations in the Philippines, we have reduced our revenue-generating talent 8.5% versus levels of a year ago. The process refinements we have been making, coupled with improved business intelligence tools that allow us greater selectivity in acquiring the right talent, have allowed us to accelerate revenue growth despite this decline. We also believe significant capacity exists to continue growing revenue and expect associate headcount levels to be stable for the remainder of the year with third quarter levels. Looking forward, we will intensify focus on tools that can further enhance the capability and output of the team, make our people more successful and reduce turnover so that we can limit adding resources. Our success is tied to our ability to consistently improve associate productivity by ensuring they are engaging with the right customers and arming them with the best tools and leadership.

I will now turn the call over to Dave Kelly, Kforce's Chief Financial Officer, who will provide additional insights on operating trends and expectations.

DAVID M. KELLY, CHIEF FINANCIAL OFFICER

Total GAAP revenue and earnings per share for the quarter were $341.1 million and 40 cents, respectively.

As has been mentioned, Hurricanes Harvey and Irma significantly impacted results. Additionally, earnings were positively impacted by a gain from the sale of our international operation in Manila; which was basically offset by costs incurred to better align our operations to service our largest strategic clients.

Adjusted revenues of $342.1 million improved by 3.3% year-over-year on a billing day basis. Year-over-year growth rates in each of our businesses accelerated in the third quarter as compared to the second quarter with the exception of Direct Hire, which comprises less than 4% of total revenue.

Adjusted earnings per share of 45 cents in the third quarter also continue to trend positively.

Our adjusted gross profit percentage in the quarter of 30.7% reflects a 20 basis point increase sequentially as a result of an improvement in Flex gross profit margins that was partially offset by a lower mix of Direct Hire revenue. The 60 basis point year-over-year decline, which compares favorably to a 120 basis point year-over-year decline last quarter, is the result of both a decline in Flex gross profit margins and a lower Direct Hire mix.

Our adjusted Flex gross profit percentage of 28.2% improved 60 basis points sequentially. On a sequential basis, for the second quarter in a row, we saw improving spreads between bill and pay rates on new assignments in both our Tech Flex and FA Flex businesses. We believe these improvements are a result of reinforcing to our associates the need for more disciplined discussions with our clients around pricing, given the value we provide. In addition, the prime contracts that KGS won during the third quarter of 2017 have contributed positively to KGS' Flex gross profit margin, which improved 450 basis points sequentially, and should continue to support higher margins in this business prospectively.

Year-over-year, bill/pay spreads in our Tech Flex and FA Flex businesses remain down, though the gap is closing due to positive pricing trends the last two quarters. The pricing environment is still very competitive and labor supply remains tight. As a result, we will likely face wage inflation and will work to pass through these increases in the form of bill rate increases. However, if the current economic landscape continues, where many of our customers still lack pricing power, spreads may continue to be under pressure. As we look to Q4, early quarter data suggests that Tech

Flex and FA Flex spreads may be stable to slightly down sequentially compared to Q3 levels. Flex margins are expected to be down seasonally due to paid time off for some of our consultants.

We continue to make progress in improving our operating leverage. On an adjusted basis, SG&A expenses as a percentage of revenue were 24.3% and have continued to decline due primarily to recent improvement in the productivity of our revenue-generating talent and solid expense control. We expect to make ongoing investments in enabling technologies which will allow us to serve our customers more efficiently and result in continued declines in SG&A expense.

On an adjusted basis, third quarter 2017 operating margins improved 10 basis points sequentially to 5.8%. We expect to continue making progress towards our operating margin objectives as revenues accelerate further and productivity continues to improve.

Our adjusted effective tax rate in the quarter was 38.0%. Because our business is entirely domestic, and not capital intensive, there is an extremely high correlation between statutory federal and state rates and our book and cash tax rates. Our effective federal tax rate is approximately 35%. Any reduction in federal rates would have a corresponding reduction in our tax rates and cash obligations.

With respect to our balance sheet and cash flows, accounts receivable increased $18.4 million sequentially. This increase was the result of a combination of growth in our business, the timing in receipt of certain payments as well as certain clients extending payment terms. Long-term debt at the end of the quarter was $128.9 million, an increase of $1.5 million from Q2 2017. We have already seen an acceleration in cash collections in Q4 and long-term debt is currently $119 million.

Capital expenditures for Q3 were approximately $1.1 million and we repurchased roughly 74 thousand shares for $1.4 million during the quarter. Since the beginning of 2015, we have spent approximately $82 million on repurchases and returned $34.1 through dividend payments over the same period. In total, cash returned to shareholders has exceeded operating cash flows over that period. We will continue to appropriately balance the utilization of available capital between investing in the long-term growth of our business through technology investments, potential tuck-in acquisitions, investments in strategic partnerships, reducing debt levels and returning capital to our shareholders.

We offer the following guidance, which represents a significant increase relative to expectations. The fourth quarter of 2017 has 61 billing days, which is two days less than Q3 2017 and equal to Q4 2016. As a reference point, we generate approximately $5.5 million in revenue per each billing day. We expect Q4 revenues to be in the range of $338 million to $342 million, which reflects an acceleration to approximately 4.3% year-over-year growth at the midpoint of guidance, and for earnings per share to be between 42 and 44 cents.

Gross margins are expected to be between 30.1% and 30.3%, while flex margins are expected to be between 27.9% and 28.1%. SG&A as a percent of revenue is expected to be between 23.9% and 24.1%. Operating margins are expected to be between 5.4% and 5.8%. This guidance assumes an effective tax rate of 38.0%. Weighted average diluted shares outstanding are expected to be approximately 25.4 million for Q4.

This guidance does not consider the effect, if any, of charges related to the impairment of intangible assets, any one-time costs, costs 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 tax law changes.

Our guidance suggests continued acceleration in total Firm year-over-year growth rates, driven primarily by Tech Flex and KGS. In addition to the benefits we will see in the fourth quarter from the recent prime contract wins at KGS, this longer-term annuity business significantly improves our growth prospects in 2018. We are optimistic about our prospects after a quarter of improving revenue, gross margin and operating margin trends and believe we can continue to accelerate revenue growth. We remain on track to achieve operating margins of 6.3% at $1.4 billion in annualized revenue and 7.5% at $1.6 billion in annualized revenue and remain confident in our long-term success.

Operator, we would now like to open up the call for questions.

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, and to our consultants and our clients, for allowing us the privilege of serving you.