KFORCE

Q1 2020
CONFERENCE CALL

Prepared remarks from:
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FIRST QUARTER 2020 FINANCIAL RESULTS
CONFERENCE CALL, MAY 6, 2020
PREPARED REMARKS

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 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 maintaining sufficient flexibility to pursue acquisitions and make other strategic investments. 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 are adverse to our businesses; 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; continued performance of and improvements to our enterprise information systems, ability to successfully manage outstanding litigation or other legal matters 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, 2019, as well as assumptions regarding the foregoing. In particular, the Firm makes no assurances that: we will successfully manage risks to our revenue stream; or we will successfully put into place the people and processes that will create future success. 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

I would like to remind you that this call may contain certain statements that are forward-looking, including statements regarding the impact, opportunities and benefits from actions taken related to the COVID-19 economic and health crisis. 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.

We are all navigating the unprecedented negative impacts of the COVID-19 health crisis on the U.S. and global economies. Beyond the economic impact is the very real and personal human cost which has taken an immeasurable toll on global societies and families. Lost jobs, uncertain futures, and the ripple effect throughout small and large businesses, non-profits, ministries and churches are staggering. At Kforce, we have endeavored to balance our responsibility to each of these constituencies with a particular focus on our associates, clients and consultants. The sudden and dramatic impact has caused each of us to reflect and appreciate some of the simpler and more important things in life – our families and relationships with each other. We are forever changed. I would like to extend my deepest thanks to my executive team and each of our people who suddenly had to balance working from home - often with their spouses in tight quarters, home schooling their children and with restrictions and a lack of support none of us have ever experienced. You have been magnificent.

With respect to Kforce's performance, as mentioned in our April 20th press release, our first quarter results met our expectations for both revenue and earnings per share. The impact of the crisis to Q1 revenues didn't begin until mid-March and was felt most significantly in our FA Flex and Direct Hire businesses.

The ability of a firm to survive difficult times such as these, and ultimately position itself to prosper through dramatic change, is directly related to the quality and experience of its management team. I feel very fortunate to have a leadership team that has navigated multiple previous economic recessions as a publicly traded company. Our team has successfully navigated through both the early 2000's recession brought on by the dot.com bust and the 2008-2009 Great Recession. Our priority during economic downturns has always been to retain our great people and maintain important strategic investments in our business so that we are well positioned to take market share and accelerate growth rapidly as the situation improves. We are approaching the current situation in much the same way.

Since moving to work from home we have maintained normal business operations while taking prudent cost containment measures, including temporarily suspending new hires, eliminating discretionary spend and selectively reducing spend in other areas. We are well-positioned to navigate through the current period without having to take drastic actions to reduce costs or raise capital. Rather we will continue to manage our business in a disciplined manner as we always have based upon operating trends.

As soon as it became necessary, our technology-enabled operating model, along with investments we have made in cloud-based technologies and our battle-tested business continuity plans, allowed us to seamlessly transition our entire workforce to be remote within 24 hours. Our people have excelled in this virtual work environment, and we are confident they'll continue to be successful. I'd like to thank our associates for their ingenuity and perseverance, all while providing exceptional service to our clients and consultants while balancing their new responsibilities at home.

While successfully navigating previous difficult periods, in each case we emerged a stronger and more focused Firm due to some key strategic decisions. The most critical of those decisions was to narrow our focus and shed non-core businesses, reduce our reliance on direct hire as a percent of total revenue and focus on building a market-leading capability to provide flexible technology resources to world-class companies.

We expect that the technical and professional disciplines will hold up well during this downturn as technology professionals are more capable of effectively working remotely and the scarcity of higher end skillsets in technology continues. We also believe that the current crisis has only strengthened the secular drivers of demand in technology as companies assess their digital transformation efforts and evaluate geographical risk and positions and projects being supported internationally.

Our position as a 100% domestically focused organization with 80% of our business being concentrated in higher-end technology staffing and solutions gives us great confidence moving forward. We will continue to place priority on allocating capital to grow our technology business. The focus of our acquisition strategy in the higher-end IT services and solutions market is unchanged though we are being very cautious and don't expect to make any acquisitions in the near-term. Our current priority is to preserve our capital and financial position while maintaining our dividend.

As we navigate through the rapidly changing landscape, we have already begun planning strategically for the new business models and practices that will emerge. All of these changes will need to be enabled by technology and require expert resources to execute. People have embraced work from home and mobility while at the same time sustaining or increasing productivity. This, together with the use of online tools for collaboration and meetings, will alter real estate footprints, travel needs, and the way we work in the future. We are accelerating our investment in technology to drive greater efficiencies and enhanced service levels which we expect to lead to faster growth and improved profitability.

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Though these are difficult times, we are excited about what the future holds for our Firm. We continue to place an emphasis on providing a safe and satisfying work environment for our consultants and core employees. We realize they are the reason for our past success and hold the key to success in the future.

I will now turn the call over to Joe Liberatore, President, who will give insights into our recent operating trends, the impacts and opportunities we've experienced to date from the COVID-19 economic and health crisis and other insights into our operating environment. Dave Kelly, CFO, will then give greater detail in certain areas and address our cash flow expectations, balance sheet position and overall capital position.

JOSEPH LIBERATORE, PRESIDENT

Thanks to all of you for your interest in Kforce.

During the course of my 32 years with Kforce, we have navigated several economic downturns and taken proactive strategic steps that have strengthened our Firm's ability to weather subsequent economic downturns.

Coming out of the dot.com recession, we began evolving and diversifying our targeted client portfolio by building significant relationships that would strategically position us as a top provider within Fortune 1000 companies, who are the largest users of flexible technology services. We now have client relationships across virtually every industry, with very little concentration in any one specific industry or client. To better serve the high-volume demand from this client base, we began building out the initial phases of our centralized delivery capability. We also re-designed our operating model to significantly reduce reliance on direct hire as a percentage of revenue while making the necessary structural adjustments to overcome the loss of that profitable revenue stream and significantly improve our operating margins. These adjustments to our model yielded results during the 2008/2009 Great Recession as we experienced revenue deterioration of less than 8% overall and declines in our technology business of only 6.5% in comparison to the overall sector's revenue declines in the mid 20's.

Coming out of the Great Recession, we began a strategic journey to narrow our focus by shedding non-core businesses with limited market size or growth potential and focusing investment in our largest business to take greater advantage of the secular shift in technology demand that was beginning to unfold as all organizations began investing in their digital transformation efforts as new business models emerged. Throughout the most recent cycle, we continued to experience the acceleration of technology driven, mission critical, strategic consumer facing initiatives within world-class companies.
We believe our 100% domestically focused service offerings, in high-demand, technology driven skills, which can effectively be performed remotely, has positioned us extremely well to navigate these unprecedented times. Our first quarter and early

second quarter trends support this belief. Additionally, our operating model and centralized delivery capability have allowed us to also support large-scale critical government-sponsored COVID-19 related initiatives which are expected to drive significant project revenue in our FA business.

Let me next discuss the performance of each business line by providing color on first quarter results as well as early second quarter trends.

With respect to our Technology business, flex revenues improved 3.3% on a year over year, billing day basis in the first quarter. We really didn't experience notable impacts from the COVID-19 crisis until the last week in March. On a year-over-year basis, technology flex revenues were up 3% for the month of March, were down 1% for the month of April with the last week in April down slightly less than 2%.

As you might expect, the significant majority of the declines, which occurred in early April, were principally concentrated in certain clients in the travel and leisure, retail and healthcare sectors, which have been impacted the greatest by the virtual shutdown of travel, in-store consumer spending and elective medical procedures. The pace of revenue deterioration has meaningfully decelerated over the last few weeks and has been more widely distributed both geographically and by industry among clients where we have less significant relationships. More recent revenue declines have been driven primarily from clients choosing to not replace or extend consultants whose assignments are complete rather than ending assignments prematurely. Starts activity and job order flow seem to have stabilized over the last several weeks, though at lower levels than prior to the crisis. These signs point to a stabilizing environment and suggest that we may see further deceleration of ends in the coming weeks driven by lower attrition of billable consultants due to both the critical nature of their project work and the ability to effectively perform their tasks remotely.

We have matured our capabilities to source and deliver diverse skill sets of qualified talent, at scale, to these large users that have priority needs for large-scale talent across the U.S. With 80% of our revenue focused in Technology we are well positioned to further evolve our offerings to meet these client's changing needs, inclusive of the expanding demand for managed services and solutions historically provided by large solution providers. We strongly believe that companies will look increasingly to firms such as ours, especially during periods of economic uncertainty due to our longevity in the market, service offering capability, scale, geographic presence and financial stability. The collective combination of these attributes allows us to consistently and confidently meet their needs. We feel extremely confident in the positioning of our technology business and the ability to expand our market share as competitive disruption in staffing companies emerges with those less capable or financially viable to navigate these economic downturns.

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Flex revenues within our FA business were down 3.4% in the first quarter. We felt the negative impacts from the current crisis earlier and more deeply in this line of business. On a year-over-year basis, FA flex revenues were down roughly 6.5% for the month of March, were down 20% for the month of April, though much like our tech business, the rate of declines is decelerating, with the last week in April down roughly 23%. Also, near the end of the first quarter we began to partner with several companies that are supporting roles associated with government's response to the pandemic including customer service and call center agents as well as loan processing specialists. These opportunities provide a level of support to our core FA Flex business as we navigate the revenue reductions brought on by this crisis. Our long-standing personal relationships fortified by experience with these clients during prior natural disasters and our ability to quickly source and deliver talent on a large scale primarily due to our centralized delivery capability uniquely positioned us to support these critical initiatives. These engagements are fluid and in the early stages, but we could see revenues for this COVID-19 project related business in the second quarter in the range of $20 to $30 million.

Direct Hire revenue in the first quarter decreased 22.6% year-over-year and represented less than 3% of overall revenues. We experienced a significant impact in this service offering in March, which was down nearly 34% due primarily to the lack of hiring as the COVID-19 crisis began to impact the US economy. As we look at early second quarter trends, Direct Hire revenues are down roughly 55% for the month of April on a year-over-year basis. As in most recessionary cycles, this service offering tends to be most impacted by economic uncertainty and we have consistently reduced our concentration of Direct Hire revenues over the years. At the peak of the economic expansion prior to the dot.com bust, Direct Hire revenues were 22.5% of revenues and at the peak of the economic expansion prior to the Great Recession, Direct Hire revenues were 7.5% of revenues. We expect Direct Hire to constitute less than 2% of revenues in the second quarter.

While Direct Hire remains an important part of our service offering to clients over the longer term, we have not allocated significant investment here in part due to the sensitivity of the revenue stream to economic cycles and also the disruptive technologies that have continued to evolve in this space. Additionally, we are able to provide Direct Hire capability in our technology practice through the same channel utilized in our technology flex business as the skillsets we service are similar.

As Dave stated, we have continued to invest in strategic initiatives to better position our Firm for the long term. We continue to invest in our most critical technology initiatives including technologies to drive efficiency in activities from the identification to the matching of talent along with our innovative Talent Relationship Management system, which is expected to be deployed in several phases throughout the second and third quarters.

We have suspended new hiring as we navigate this crisis and are continuing to manage the productivity of our associates as we typically do, with an elevated focus on retaining our most productive associates so we are best positioned to take advantage of the market subsequent to this crisis. We, therefore, anticipate declines in overall staffing levels due to natural performance managed attrition, but we do not currently expect any large-scale reductions in force.

Our experience has been that recessionary cycles result in a shift in the competitive environment and we believe we are ideally situated to take advantage of the market as conditions recover in what we believe could be an accelerated digitally led expansion.

I echo Dave's thoughts on the appreciation for the trust our clients, consultants and candidates have placed in Kforce and our team's efforts executing in a fully remote capacity while managing through these remarkable times.

DAVID M. KELLY, CHIEF FINANCIAL OFFICER

I will first give some additional details and insights into first quarter performance and then, given the current environment, provide some commentary around the strength in our liquidity and cash flows.

Revenues of $335.2 million in the quarter grew 1.0% year-over-year and earnings per share of 42 cents grew 31.3% year-over-year, or 10.5% after excluding a charge related to actions taken as a result of the KGS divestiture in the first quarter of 2019.

Our gross profit percentage in the quarter of 28.2% decreased 30 basis points year-over-year primarily as a result of a lower Direct Hire revenue mix, which was partially offset by improved Flex gross profit margins.

Flex gross profit margins improved 40 basis points year-over-year driven by a 70 basis point improvement in Tech Flex, which was partially offset by declines in FA Flex margins. Flex margins in the first quarter benefited principally from a more favorable payroll tax environment on a year-over-year basis. Bill/pay spreads were stable sequentially in our technology business and down slightly in our FA business.

Looking at April results, bill/pay spreads in our Tech Flex business have remained stable and we have seen an increase in our tech average bill rate. The bill rate increase is primarily a result of changes in assignment mix. The revenue reductions we have seen in our technology business have been more concentrated in lower bill rate assignments, while those with higher level skill sets have seen less attrition relatively speaking, likely due to a combination of criticality of role and work remote capability. We will experience overall declines in FA Flex margins primarily as a result of the large-scale support of the COVID-19 related initiatives Joe mentioned, which, while driving significant revenue, have average margins lower than our core FA business.

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We have continued to gain operating leverage and improved cash flows as revenues have grown through significant improvements in associate productivity and diligently managing our SG&A spend while still significantly increasing our spend on technology initiatives. SG&A as a percentage of revenues in the first quarter declined by 80 basis points year-over-year. By way of comparison, over the last five years, annual SG&A expenses have been essentially flat while revenues have grown by $125.5 million.

Roughly 80% of our SG&A expenses are variable in nature, which allows us to naturally reduce costs by continuing to manage the performance of our associates and suspending new hires, though there is typically a slight lag in cost reductions relative to revenue reductions. The actions taken over the last several years to gain significant operating leverage along with some of the cost containment actions noted earlier by Dave and our quality revenue stream has put us in a position to navigate the current crisis without taking drastic action.

Our first quarter operating margin of 4.2% was on track with our operating margin objectives. In addition, our effective tax rate in the first quarter was 27.3%, which was slightly higher than we anticipated due to a discrete item related to the KGS divestiture as we filed final tax returns.

As noted in our April 20th press release, we returned nearly $34 million in capital to our shareholders as of April 15th through our quarterly dividend and share repurchases. We also affirmed our intention to maintain our quarterly dividend based upon our confidence in continuing to generate significant positive future cash flows.

Let me spend a few minutes discussing our liquidity position as well as future cash flows.

We have a $300 million revolving credit facility that matures in May 2022 with Wells Fargo as administrative agent, along with eight other top financial institutions. Our trailing twelve months EBITDA as of March 31, 2020 was roughly $93 million, which currently provides incremental borrowing capacity, should we need it, of roughly $155 million. Net debt as of March 31, 2020 was approximately $68 million, or roughly 0.7 times trailing twelve months EBITDA. As we noted in our April 20th release, we decided to take advantage of the historically low interest rates by entering into interest rate swaps on $100 million in debt at an all-in rate of 1.86%. The tenure of these swaps is between three and five years. In doing so, we also drew down incremental cash from our credit facility, which is currently sitting on our balance sheet, to further reduce any liquidity concerns. We exited the quarter with outstanding borrowings of $100 million and cash on hand of roughly $32 million.

Our working capital balance as of March 31st, net of cash on hand, was approximately $150 million, which serves as another reliable source of liquidity as revenues contract. While days sales outstanding increased by approximately two days in the first quarter due to payment extensions by our clients, we believe our accounts receivable portfolio is comprised of high-quality companies. We have not seen any significant extension requests within the last three weeks and DSO's have stabilized. At the same time, we are taking prudent steps to defer significant cash outflows where possible to future quarters and minimize expenses. Overall, we expect operating cash flows to be strong in the second quarter. We believe we are in an enviable position due to our low debt levels, healthy cash flows, high-quality accounts receivable portfolio and resilient revenue stream. We continue to make responsible investments in our business that we believe position us well to outperform the market as the crisis subsides. Our number one priority continues to be the health and safety of our employees, clients and consultants.

Given the significant uncertainty, as noted in our press release, we will not be providing guidance for the second quarter but expect that the additional insights we provided into March and April monthly trends were helpful. Our weighted average shares outstanding and effective income tax rate for the second quarter are expected to be 21.1 million and 26.5%, respectively.

Kforce outperformed the market during the Great Recession. At that time, technology only comprised 50% of total revenues versus 80% today. We believe we are in an even better position to outperform as we navigate the current COVID-19 economic and health crisis. I will end my prepared remarks with a sincere thank you to all of our teams for their efforts over the last six weeks to ensure that we are living up to our brand promise of providing great results through strategic partnership and knowledge sharing.

DAVID L. DUNKEL, CHAIRMAN AND CEO

Thank you for your interest in and support of Kforce. In these truly unprecedented times, I would like to say thank you to each and every member of our field and corporate teams for the tremendous efforts over the last four to six weeks, and to our consultants and our clients, for your trust in Kforce in partnering with you during these tremendously uncertain times and allowing us the privilege of serving you. We are excited about our future and look forward to talking with you again next quarter.