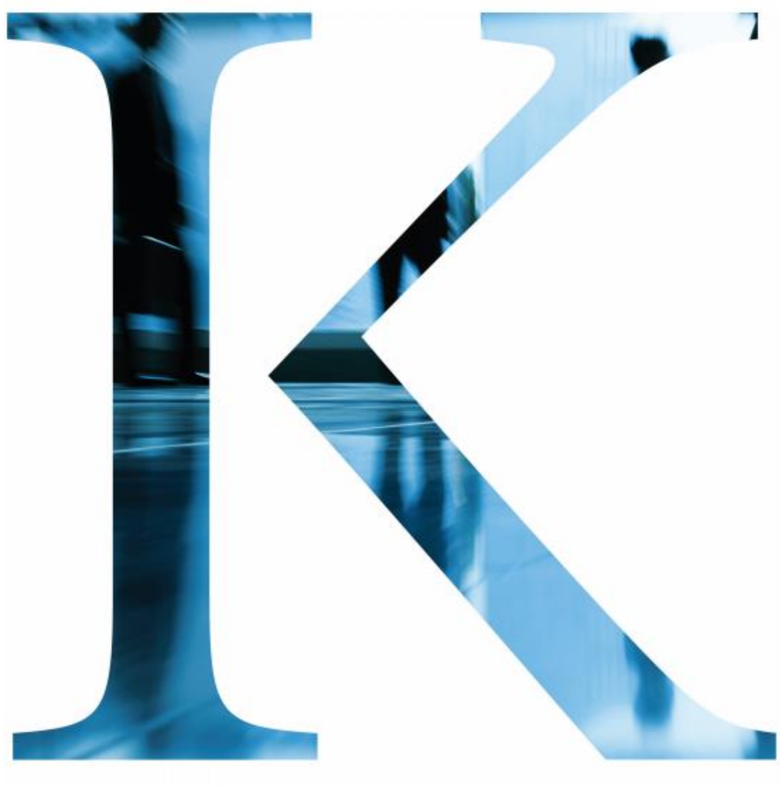
KFORCE®

Q1 2017
CONFERENCE CALL

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



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FIRST QUARTER 2017 FINANCIAL RESULTS
CONFERENCE CALL, MAY 2, 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.

Over the past year, we have been executing a plan to refine our operating structure, enhance our client portfolio, and invest in those areas necessary for sustained revenue growth. First quarter revenues of $334 million, which represents an acceleration in year-over-year growth to 3.7%, indicates continued progress towards our goals. Year-over-year growth rates accelerated from fourth quarter levels in all of our flexible staffing businesses. We continue to be encouraged by our key performance indicators, which are all up compared to prior quarters, especially in Tech Flex. These data points continue to provide positive indicators of the growing strength in professional staffing, as well as the strength in the demand for our services. From a profitability perspective, earnings per share of 23 cents met our expectations. While we experienced greater than expected compression in Tech Flex margins in the first quarter, this impact was largely offset by improved productivity per performer, and the benefits of our alignment activities.

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Heading into the first quarter, we saw a domestic market that was still absorbing the surprising results of the presidential election and potential policy implications. During the quarter, there has been much speculation and discussion around key policy initiatives including corporate tax reform, healthcare, immigration, and financial regulation. While there is still great uncertainty as to the details and impact of the potential reform, the secular drivers of technology projects continue to fuel demand.

The areas of highest demand include: mobility, cloud computing, cyber security, e-commerce, machine learning, and digital marketing. Competitive pressures and market shifts compel investment in customer facing applications to support business strategies and sustain relevancy in today's rapidly changing marketplace. Customers are becoming increasingly dependent on the efficiencies provided by technology and the need for innovation. Advancements in the use of big data, business intelligence and artificial intelligence have contributed to the demand landscape for technology resources. The shorter-term project nature requires specific skill sets, which are increasingly driving companies to a greater use of flexible resources. Even as technology investments are no longer optional, an improvement in economic conditions may accelerate demand as technology investments typically increase in more robust periods of growth.

These secular drivers are also impacting Kforce as we focus on driving improved associate productivity, enhancing our operating model and technology platforms and further accelerating top line growth to generate long-term shareholder value. These targeted investments include enhancing and sustaining sales and delivery training, technology-related investments, including our CRM, and measured and balanced additions to our revenue generating talent. We are pleased to have gone live in April 2017 with the initial pilot of our new customer relationship management tool. My compliments to our team involved in this effort as we work towards a full deployment in 2017.

We remain confident in our ability to accelerate growth and improve profitability while continuing to make these important investments.

I will now turn the call over to Joe Liberatore, President, who will provide further details on our Q1 operating results. Dave Kelly, Chief Financial Officer, will then add further color on our Q1 operating trends and financial results as well as provide guidance on Q2.

JOSEPH LIBERATORE, PRESIDENT

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

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We continue to make progress in improving revenue growth rates across our flexible staffing businesses as we gain traction with the changes we have been making against the backdrop of a strong demand environment.

Tech Flex, our largest segment, which accounts for 65% of total revenues, increased 2.7% year-over-year. We carried momentum into the beginning of 2017 and experienced a stronger than expected January, followed by a flattening mid quarter with improving trends as we exited March, and our activity levels have remained elevated. We are also continuing to benefit from positive trends in the length of our average assignment, which we believe is driven by our clients' desire to retain qualified and skilled high demand IT talent.

Critical to the long-term success of our Tech Flex business is the ability to deliver at scale to larger consumers of flexible technology talent, and further deepening our expertise within growing industry verticals to allow us to expand the breadth of our service offerings to these larger, sophisticated buyers. Larger customers continue to concentrate spend with larger firms, such as Kforce, that can meet their needs nationally as well as ensure compliance with internal and external policies and regulations. We expect this trend to continue and for spend to become increasingly concentrated. Our 25 largest Tech Flex customers comprise nearly 50% of Tech Flex revenues. We are focusing investment where we can differentiate ourselves from competition and where we have a strong platform for growth. During the quarter, we experienced year-over-year growth in 7 of our top 10 industry verticals. This suggests that the demand environment continues to be broad based. Manufacturing, communications, energy and retail were particular strengths year-over-year.

For the second quarter, we expect Tech Flex revenues to improve sequentially and year-over-year growth to be at or slightly better than Q1 levels.

Our FA Flex business, which represents 24% of our total revenues, increased 7.5% year-over-year. Our activity levels and assignment starts volume were particularly strong in the first quarter, but have decelerated slightly in the month of April. From an industry perspective, 8 out of our top 10 verticals experienced year-over-year growth, including financial services, healthcare, business services and retail. Following project ends and elevated conversions in the first quarter, we have experienced some slowdown in trends. We may see a slight sequential decline in the second quarter, but year-over-year growth in the mid-single digits.

Revenues for Kforce Government Solutions increased 6.6% year-over-year, driven by an increase in services revenue. The growth in this business has come despite the bias towards small business in our largest prime contract, T4NG. We are exerting significant energy on new prime and subcontract opportunities across a broader set of opportunities and potential customers to further diversify our footprint. Much like the commercial space, Technology and Finance & Accounting resources are in short supply. We expect revenues for KGS in the second quarter to be up sequentially on a billing day basis, but may be flat to the prior year due to higher product revenue in the second quarter of 2016.

Direct Hire revenues from placements and conversions is currently 3.4% of total Firm revenues, compared to 3.9% a year ago. Our objective is to meet the talent needs of our clients through whatever means they prefer, and we will continue to provide this capability, though investments in talent for our Tech Flex business remains our priority. The second quarter of the year is seasonally our peak Direct Hire quarter historically. So, we expect a sequential increase though year-over-year direct hire revenue is expected to be down.

As Dave mentioned in his opening remarks, we are keenly focused on making investments that provide our revenue generating talent with the necessary training and tools to engage in more strategic conversations and allow us to elevate the value we are bringing to our clients and consultants. After completing the initial rollout of our sales transformation activities in the fourth quarter of 2016, we completed certain follow on activities in the first quarter to further embed our new sales methodology into our day to day activities. In addition, we rolled out our new customer relationship management system to an initial pilot office last week and continue to work towards a full deployment of this system in 2017. We believe these investments, among others, will generate a significant return by improving how we consistently engage with and deliver services to our clients, candidates and enhance the effectiveness and efficiency by which we conduct business.

Our revenue-generating talent was down 8.1% in the first quarter on a year-over-year basis. While our sales talent has increased on a year-over-year basis, we have intentionally reduced our delivery talent to ensure optimal ratios which should improve productivity. We believe that capacity exists within our revenue generating talent to provide ample opportunity for us to further accelerate revenue growth rates. Thus, we expect associate headcount levels to be stable in the second quarter with first quarter levels and then resume hiring later in the year after further adoption of our new sales methodology and improving productivity.

Our sustained success is tied to our ability to consistently improve associate productivity by ensuring they are engaging with the right customers, leveraging the investments we have made in our new sales methodology, as well as the technology-related investments we are making, inclusive of our new CRM. We are confident in our ability to realize the benefits of these investments.

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

Thank you Joe.

Total revenue for the quarter of $334.0 million represents growth of 3.7% on a year-over-year basis. The most significant driver to this was an acceleration in total flexible staffing revenue growth, which improved 4.0% year-over-year.

Earnings per share of 23 cents in the quarter was in line with our expectations as lower than anticipated gross margins were offset by lower operating costs.

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Our gross profit percentage in the quarter of 29.1% fell short of our expectations and decreased 110 basis points year-over-year. The year-over-year decline in gross profit margins was driven by a combination of a decline in Flex gross profit margins as well as a reduced concentration of higher margin Direct Hire revenue, which represented 3.4% of revenues in the quarter versus 3.9% a year ago.

Our Flex gross profit percentage of 26.6% in the first quarter decreased 70 basis points year-over-year. Contributing to these lower margins were a significant number of large healthcare claims in our staffing business. More significantly, whereas spreads in our FA business were stable with Q4 levels, the year-over-year decline in Bill/Pay spread in our Tech Flex business was greater than anticipated. Though we experienced spread compression at certain large clients, the greatest declines were seen on newer engagements outside of our largest clients. Rising pay rates due to tight supply are contributing to the compression. As pay pressures intensify, we must continue to educate our clients on the value we provide so that we can effectively pass through these increases. We believe we can mitigate some of the spread compression through this diligence, though if the current economic landscape continues, where our customers still lack pricing power, we expect margins will continue to be under pressure. As we look to Q2, early quarter data suggests that Tech Flex and FA Flex spreads are unchanged and that margins will be relatively stable sequentially after taking into account the improvement in Q2 from Q1 of seasonal payroll tax increases.

We continue to make progress in reducing operating expenses. SG&A as a percentage of revenue was 25.4% in the first quarter of 2017 versus 26.5% in the first quarter of 2016. Q1 2016 SG&A included 50 basis points of severance costs. After accounting for these costs, the year-over-year decrease of 60 basis points is primarily a result of the realization of the benefits from the realignment activities completed in 2016, greater expense control and improved productivity per associate. The reduction in SG&A was realized despite a year-over-year increase in costs related to investments in technology. We expect SG&A levels to continue to decline as productivity increases in our revenue-generating associate population and we realize the benefits of a more consistent sales methodology enabled by technology improvements.

Q1 2017 operating margins were 3.1% as compared to 2.9% in Q1 2016. We take a longer-term view of our business and expect to continue to make measured investments in additional revenue-generating talent and technology enhancements, although as Joe mentioned, we expect that talent investments may be weighted towards the back half of 2017.

With respect to our balance sheet and cash flows, operating cash flows in the first quarter of negative $10.5 million were lower than we anticipated due to an increase in accounts receivable. The first quarter is typically our lowest cash flow quarter. We expect to generate positive operating cash flows in the second quarter of 2017.

Long-term debt at the end of the quarter was $135.7 million, an increase of $20.2 million from Q4 2016. Debt is currently $125.5 million.

Capital expenditures for Q1 were approximately $2.3 million. We returned approximately $3 million in dividends to our shareholders in Q1 2017, though we did not repurchase any stock during the quarter. We continue to believe that our strong balance sheet and future operating cash flows provide ample resources to continue to invest in the growth of our business while returning the cash we generate to our shareholders through our dividend program and share repurchases.

With respect to guidance, the second quarter of 2017 has 64 billing days, which is the same number of days as both Q1 2017 and Q2 2016. We expect Q2 revenue to be in the range of $342 million to $347 million, and for earnings per share to be between 45 and 47 cents. This includes the combined sequential improvement to Flex Margins and SG&A of annual payroll tax decreases in Q2 relative to Q1, which is expected to be approximately 13 cents per share.

Gross margins are expected to be between 30.2% and 30.4%. Flex margins are expected to be between 27.5% and 27.7%, which assumes a 100 basis point positive sequential impact from payroll tax resets. SG&A as a percent of revenue is expected to be between 23.8% and 24.0%. Operating margins are expected to be between 5.7% and 6.0%. This guidance assumes an effective tax rate of 38.4%, which is a bit lower than 2016 as we continue to see an increased benefit from work opportunity tax credits from improved diligence in this area. Weighted average diluted shares outstanding are expected to be approximately 25.6 million for Q2.

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.

We continue to be encouraged by our key performance indicators, which continue to suggest strength in demand for professional staffing and, more specifically, for Technology and Finance & Accounting talent. We continue to make progress towards our goal of returning to double digit year-over-year revenue growth though we are progressing slightly more slowly than we had anticipated. As the business environment changes, we remain confident in our ability to adapt and to achieve operating margins of 6.3% at $1.4 billion in annualized revenue and 7.5% at $1.6 billion in annualized revenue, despite the recent decline in our gross margins. Key to the attainment of these commitments are continued improvement in associate productivity and revenue growth that provides further leverage in our overall operating model.

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.