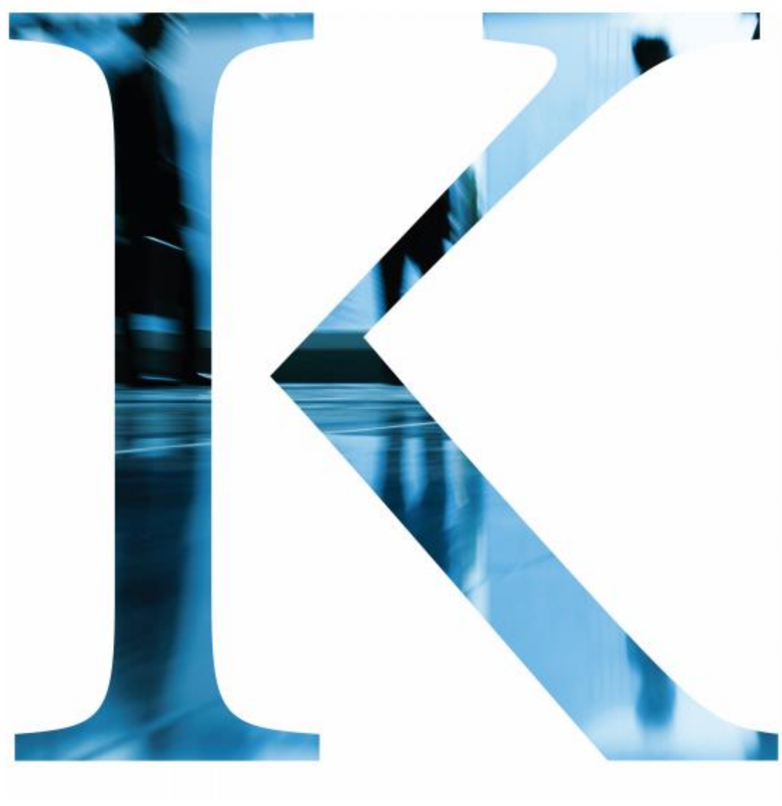
Q4 2017
CONFERENCE CALL

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



Great People = Great Results®

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FOURTH QUARTER 2017 FINANCIAL RESULTS
CONFERENCE CALL, FEBRUARY 6, 2018
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, including an additional table in our press release to reconcile our GAAP results with adjusted results, which is provided to give you greater clarity into our operating trends. In addition, we have published our prepared remarks within the Investor Relations portion of our website.

Before we discuss our Q4 and annual results, we offer our observations on the dynamic changes in the market for our services and what we foresee in the coming year. The demand environment continues to be very strong and has prospects to further improve. The U.S. economy is improving as reflected in GDP growth of 3.2% and 2.6% for the third and fourth quarters, respectively. With the new administration, we have seen a reduction in regulations and with the passing of the Tax Cuts and Jobs Act, a dramatic change in optimism and investment plans, particularly in technology. It has clearly given new life and energy to the economic cycle and an expectation for continued growth. In addition, companies are increasingly looking to temporary labor to meet their human capital needs as evidenced by another all-time high in December of the temporary penetration rate. The secular drivers for Tech Flex, continue to fuel demand for highly sought skills as the competitive battle driven by technology accelerates. Companies across industries, and of all sizes, continue to look to technology investments to improve internal efficiencies, enhance their customer-facing applications in support of their business strategies and to sustain relevancy in the rapidly changing marketplace. Big data, artificial intelligence and machine learning continue to be in high demand, as well as needs for cloud computing, cybersecurity, mobility and digital marketing. Some of the largest companies in the world have recently announced significant increases in their technology budgets to improve the experience of their customers and to meet the ever-growing risks of cyber security.

Turning now to our quarterly results, I want to recognize the efforts of our team for what has been an incredible year of accomplishments in 2017.

We began the year in the midst of significant transition. We were in the very early stages of our sales transformation initiative whereby all of our sales associates were trained on our new methodology. We also were still preparing for the implementation of our new CRM system and crystallizing our customer segmentation strategy. Revenue growth heading into 2017 was also virtually non-existent. However, we were confident in our course of action and are pleased that we made significant progress on all fronts throughout 2017.

I am excited to see the hard work of our team manifesting itself in accelerating revenue growth rates, especially in Tech Flex, as well as improved operating leverage. Total Firm revenue of $1.36 billion in 2017 grew 2.9% year-over-year, with notable acceleration in the second half of the year to above SIA growth rates, and adjusted earnings per share of $1.57 grew 8.3% year-over-year. More importantly, the hearts of our associates were on full display through our support of the victims of the hurricanes that devastated significant portions of our country and Puerto Rico. Stewardship and community is a core value, and I could not be prouder of our team.

Fourth quarter results reflect continued momentum. Led by an acceleration of growth in our Tech Flex business, revenue for the quarter of $342.6 million grew 5.1% year-over year and exceeded the high end of our expectations. Earnings per share, adjusted for the negative impact of the tax reform legislation, of $0.45 also exceeded the high end of our expectations.

As we head into 2018, we believe the actions we've taken over the past year, and continue to build on, have laid a solid foundation for strong revenue growth rates and improved profitability. Our plan for 2018 also contemplates continued technology investments in improving the productivity of our associates as well as positioning us to better serve our clients and candidates.

We remain well positioned to maximize our market opportunities and achieve our near and long-term goals. We expect to achieve our operating margin commitment of 6.3% at $1.4 billion in annualized revenue by the second quarter and remain on track to reach an operating margin of 7.5% at $1.6 billion in annualized revenue.

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I will now turn the call over to Joe Liberatore, President, who will provide further details on our Q4 operating results. Dave Kelly, Chief Financial Officer, will then add further color on our Q4 operating trends and financial results as well as provide guidance on Q1.

JOSEPH LIBERATORE, PRESIDENT

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

We have been focused over the last 18 months on making the necessary investments and structural changes to significantly improve execution and increase the value we provide to our clients and candidates. In the second half of 2017, we began to see the benefits of our actions, as associate productivity improved and our year-over-year revenue growth rates accelerated meaningfully.

Let me give you perspective on how each of our businesses performed.

Revenues within our Tech Flex business, which is roughly two-thirds of overall revenues, grew 5.4% on a year-over-year basis. Normalizing for the loss of revenue from the divestiture of our Global business in the third quarter, our core Tech Flex business grew above SIA at 6.7% year-over-year. The strong demand for scarce IT resources has resulted in healthy starts activity and a lengthening of average assignment lengths in our Tech Flex business to approximately 8 months.

Fortune 1000 companies continue to be the largest users of flexible technology talent. We have been working to diversify our portfolio beyond our largest clients, and more deeply into other Fortune 1000 customers where we have an established relationship. The revenue growth in the second half of 2017 was largely a result of these efforts, as Fortune 1000 client opportunities outside of our largest clients accounted for the greatest share of our growth. 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 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. 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 and focus in our field offices, has also allowed us to increase productivity levels again this quarter. While we are pleased with these gains, we believe capacity remains as a result of our investments and restructuring and we have significant room for additional improvement while maintaining current talent levels.

During the quarter, we experienced year-over-year growth in seven of our top 10 industries. Communications, computer manufacturing and transportation performed particularly well, in addition to certain professional services and solutions companies supporting the Federal Government.

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For the first quarter of 2018, we expect Tech Flex revenues to decline sequentially due to seasonal year-end assignment ends and for year-over-year growth rates to remain above SIA at fourth quarter levels.

Our FA Flex business, which represents 23% of our total revenues, exceeded our expectations in the fourth quarter and grew 0.3% on a year-over-year basis against a difficult comp. A portion of the stronger than expected performance was associated with clients needing resources for disaster recovery efforts stemming from the third quarter hurricane activity. From an industry perspective, we saw particular strength in business services, retail and insurance institutions. A significant portion of the hurricane recovery-related roles will likely end in the first quarter, which would present a headwind to our growth prospects in the first quarter and may result in both sequential and year-over-year billing day declines in the low to mid-single digits.

Revenues for Kforce Government Solutions increased 25.7% year-over-year and was driven by the expected increase in revenues from the two strategic prime contracts awarded in the third quarter as well as an increase in product revenues. Our management team has worked diligently over the last several years to shift their business development and capture management efforts towards securing prime contracts such as these and we are pleased with their progress. KGS derived 53% of revenues from work as a prime contractor compared to 45% a year ago. We continue to believe that these prime contract wins serve to increasingly build a solid, more profitable, revenue base moving forward. As was mentioned on last quarter's call, KGS has a significant re-compete in the first quarter of 2018, which represents less than 18% of the revenue base. While we have experienced a solid track record in winning our re-competes, each has inherent uncertainties, especially when we are serving as a subcontractor such as in this particular arrangement. We expect double digit year-over-year growth in the first quarter of 2018, though the rate of growth will decelerate given lower product revenue.

Direct Hire revenues, which represents roughly 3.0% of total Firm revenue, declined 9.9% year-over-year. Our Direct Hire business is an important capability in ensuring that we can meet the talent needs of our clients through whatever means they prefer. The fourth quarter is normally our seasonal low point, so we expect sequential improvement in the first quarter, along with slight declines year-over-year.

We continue to be focused on embracing technology by making targeted investments in training, technology and other tools to enhance our customer experience and relationships in addition to enabling our talent associates to be more productive. Improving productivity is the single most significant factor in meeting our profitability targets.

The process refinements we have been making, coupled with improved business intelligence tools that allow us greater selectivity in acquiring the right talent, have improved the productivity of our revenue-generating talent by approximately 15% year-over-year. We believe significant capacity exists to continue growing revenue and expect associate headcount levels in the first half of 2018 to be stable with 2017 levels.

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.

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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

Revenues of $342.6 million exceeded the high end of our guidance.

GAAP earnings were 24 cents per share. This includes a one-time, non-cash charge to our provision for income taxes related to the revaluation of our deferred tax assets stemming from the Tax Cuts and Jobs Act. The amount of the one-time charge was $5.4 million, or $0.21 per share. Earnings, adjusted for this charge, were 45 cents per share and exceeded the high end of our guidance.

Our gross profit percentage in the quarter of 30.0% reflects a 60 basis point decline year-over-year. The decline in gross profit margins was driven by a 30 basis point decline in Flex gross profit margins as well as a lower concentration of higher margin Direct Hire revenue, which represented 3.0% of revenues in the quarter versus 3.5% a year ago.

Our Flex gross profit percentage of 27.8% decreased 30 basis points year-over-year primarily as a result of compression in the spread between bill rates and pay rates and higher health insurance costs. Our Tech Flex margins have declined 30 basis points year over year. However, since the first quarter, flex margins in Tech have largely stabilized through a reinforcement to our associates of the need for more disciplined discussions with our clients around pricing and the value of our services. FA Flex margins declined 60 basis points overall year over year, 20 basis points of which was related to spread compression. Margins in our Government business were flat year over year. The prime contract business that KGS won during the third quarter of 2017 has contributed positively to KGS' Flex gross profit margins and is offsetting an increase in healthcare costs in this unit.

The labor supply remains tight and will likely continue to drive consultant wages higher. At the same time, many of our customers have lacked pricing power due to the sluggishness of the current economic cycle and have exerted significant pricing pressure on their suppliers. However, during this period we have been relatively successful in passing through wage increases. The recent acceleration of GDP growth has not yet resulted in widespread improvement in our ability to raise prices. However, we have begun to see select circumstances where the scarcity of talent has allowed us to improve bill rates.

As a footnote, the sale of our low bill rate Global operations has resulted in a substantial improvement in our Tech Flex average bill rate, which has increased from $67 to $72. Not only is our core Tech Flex business growing at a faster rate excluding the Global operations, as Joe mentioned, but the resulting higher rates will help drive more gross margin dollars as we grow.

First quarter flex margins are expected to be stable excluding impacts from seasonal payroll tax resets.

SG&A expenses as a percent of revenue declined 120 basis points to 24.0% in the quarter versus 25.2% in Q4 of last year. We continue to make progress in generating SG&A leverage by improving productivity and controlling spend. This has allowed us to significantly increase our investments in technology, such as our new CRM, and sustain our sales transformation efforts. As we head into 2018, we expect to make additional investments in technology. Now that our CRM has been rolled out, we will focus on improving the candidate and consultant experience and further improving our business intelligence capabilities. While these investments will have up-front costs, they are directly linked to generating additional productivity improvements.

Fourth quarter 2017 operating margins of 5.4% improved 60 basis points year-over-year, which reflects our ability to offset the negative impact from the compression in our Flex margin spreads through productivity gains and solid expense management.

Our effective tax rate in the fourth quarter, excluding the impact of the tax reform charge, is 35.7%, which is slightly more favorable than we had anticipated driven by higher than expected tax credits. As it relates to our effective income tax rate on a go-forward basis, we announced in December that we expected rates to be between 25.5% and 27.5% in 2018. Based upon our analysis of subsequent trends, we expect that our effective tax rate for 2018 will be towards the lower end of this range. We do, however, anticipate subsequent regulations and interpretations to be released that will provide additional guidance on the application of the law and we will provide updates on any impacts. We expect that we will generate an additional $10 million in cash as a result of the reduction in our effective tax rate in 2018.

With respect to our balance sheet and cash flows, accounts receivable decreased $18.1 million sequentially. This reduction and strong earnings, allowed us to decrease outstanding borrowings under our Credit Facility at the end of December by $10 million, as well as return significant cash to our shareholders through dividend payments and stock repurchases. Debt at the end of the year was $116.5 million. We repurchased roughly 451 thousand shares for $10.8 million during the quarter and paid approximately $3 million in dividends. Over the last three years, we have returned virtually 100% of operating cash flows to our shareholders.

Looking to Q1 cash flows, we anticipate the receipt of approximately $7 million in previously unanticipated income tax refunds due the actions we took in the fourth quarter as a result of tax reform. We will continue to appropriately balance the utilization of this cash and other available capital between investing in the long-term growth of our business through technology investments, potential tuck-in and strategic acquisitions, investments in strategic partnerships, reducing debt levels and returning capital to our shareholders.

The first quarter of 2018 has 64 billing days, which is three days more than Q4 2017 and equal to Q1 2017. As is typical, first quarter revenues will be impacted by the rebuild of billable consultants on assignment from the reductions we see at the end of the calendar year. With respect to guidance, we expect Q1 revenues to be in the range of $343 million to $347 million and for earnings per share to be between 35 and 38 cents. This includes the combined impact to Flex Margins and SG&A of annual payroll tax resets in Q1, which negatively impact operating margins by approximately 150 basis points and earnings per share by approximately 14 cents per share.

Gross margins are expected to be between 29.0% and 29.2%, while flex margins are expected to be between 26.5% and 26.7%. SG&A as a percent of revenue is expected to be between 24.4% and 24.6%. Operating margins are expected to be between 3.8% and 4.2%. This guidance assumes our new effective tax rate of 26.0%. Weighted average diluted shares outstanding are expected to be approximately 25.4 million for Q1.

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 future tax law changes.

We are excited for the prospects we see in the upcoming year. Based upon current revenue trends, we would expect to exceed $350 million in revenues in the second quarter, and for operating margins to be at least 6.3% should that occur. We also continue to be on track to achieve operating margins of 7.5% in a quarter without seasonality impacts where revenues reach $400 million.

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.