KFORCE®

# Q3 2019
# CONFERENCE CALL

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

*Great results through strategic partnerships and knowledge sharing.®*

**THIRD QUARTER 2019 FINANCIAL RESULTS**
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**PREPARED REMARKS**

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Certain of the statements contained herein, including 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, and maintaining sufficient flexibility to make strategic investments, the outlook for financial performance for the fourth quarter of 2019 and the quarterly and full year financial perspective for 2020, 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, growth in temporary staffing and the general economy; competitive factors, risks due to shifts in the market demand; a reduction in the supply of candidates 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 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 awards, task orders or funding under contracts; changes in client demand and our ability to adapt to such changes; 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, 2018, 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 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

## DAVID L. DUNKEL, CHAIRMAN AND CEO

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. Unless otherwise indicated, our commentary relates to results from our continuing operations.

We are very pleased with our third quarter results as both revenues and earnings per share exceeded the top end of our guidance. The better than expected results were driven primarily by an acceleration in new assignment starts in our Technology business as the quarter progressed.

We are excited about our focused footprint, with Technology now comprising almost 80% of overall revenues. Our business is now completely dedicated to meeting our clients' domestic needs in Technology and Finance and Accounting, which are two of the largest and fastest growing segments. Clients, particularly in technology, are looking for partners that are able provide resources at scale with multiple skill sets, across multiple geographies and with a focus on compliance. We have built a business that is able to do just that without distraction and it is helping us increase client and market share. Growth in our technology business has now outpaced the market for the eighth consecutive quarter.

We continue to look to deepen relationships within our existing client portfolio, which is comprised of predominantly Fortune 500 companies. These companies are increasingly looking for their partners, such as Kforce, to both provide the resources necessary to execute on critical projects and to also assume a greater role in more complex technical projects that require managed services and solutions. Our clients have increasingly expressed a desire to engage with us to serve as an effective, more cost efficient alternative or complement to the larger scale integrators as evidenced by our success in recently winning several strategic engagements. This growing demand significantly expands our market opportunity beyond the $30 billion domestic technology staffing market.

Demand for flexible technology resources continues to be quite strong. Every organization across every industry is being confronted with the imperative to invest and rapidly adapt to ever-changing business models, new competitors and the changing preferences of their customers. Market leading companies understand the value of utilizing flexible technology resources to execute on the project work needed to address this changing landscape where speed and flexibility are critical. Discussions with many of these companies indicate that they are targeting an increased proportion of flexible resources within their technology teams to meet these project-driven needs. We believe these secular drivers of demand have fundamentally changed the trajectory and persistence of technology investments and utilization of flexible labor to meet this demand. Given the strength in the secular drivers of demand in technology, we would expect the performance of the domestic technology staffing and solutions market to perform well relatively speaking even during adverse macroeconomic environments.

What is true for our clients is also true for Kforce. As demand for our services grows, we are constantly evaluating and testing enabling technologies that can significantly enhance the experience of our clients and candidates and improve the effectiveness and efficiency of our people.

Before I turn the call over to Joe, I wanted to let you know that during the quarter we repurchased 1.2 million shares for roughly $40 million in the third quarter and in early October we made additional purchases that exhausted the $102 million in estimated net proceeds from our divestitures earlier than we had anticipated. Looking forward, our low debt level and strong cash flows provide significant flexibility to both pursue strategic acquisitions and still consider opportunities to return additional capital to shareholders.

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I will now turn the call over to Joe Liberatore, President, who will give greater detail into our operating results and trends and then Dave Kelly, CFO, will add further color on third quarter results, our intentions with use of cash proceeds and provide guidance on Q4.

**JOSEPH LIBERATORE, PRESIDENT**

Our Technology service offerings continue to be the engine that is fueling our growth. This business saw meaningful improvement in starts activity in the second half of the quarter, which drove an improvement in year-over-year growth rates to 6.5% in the quarter. However, both our FA Flex business, which grew sequentially, and our Direct Hire business, which has seen improvement in growth rates for four consecutive quarters, were important contributors to exceeding our expectations in the quarter. Collectively, we have excellent service offerings that set our Firm up for sustained growth at rates exceeding the market.

Let me provide some details about the performance in each of our lines of business.

We continue to take a larger share of business at existing clients in Technology. The increase in billable consultants on assignment at clients where we have our longest and deepest relationships is driving our growth, which has now exceeded the market for eight consecutive quarters. We believe our continued focus on further deepening relationships with existing clients is the right path, given our enviable client portfolio. We have established relationships with roughly 70 percent of the Fortune 500, many of which are long-standing. These companies continue to be the largest consumers of technology talent. We are aligning our service offerings and operating model to best fit with how these clients purchase our services. We have made a concerted effort to align our teams by industry and size of relationship to drive enhanced customer intimacy. Overall, Technology bill rates have increased modestly by 2.9% over last year and 1.0% sequentially.

Our strong relationships coupled with the quality of skilled technology talent we provide our clients is contributing to an increase in the average duration of our consultant assignments, which is approaching 10 months. We believe this trend may continue due to a scarcity of supply and the growth we are experiencing in higher-value-add managed service and solutions projects.

We are leveraging the longevity of our relationships and the resulting deep understanding of existing client needs to provide talent through traditional staff augmentation, while also increasingly seeing success in areas including resource and capacity management as well as managed services and solutions. While the size of this business for us is still relatively small, it continues to grow at a faster rate with higher margins and is an important part of our strategy. We believe significant opportunity exists to expand our capabilities and provide differentiated value add services to our clients.

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We have experienced growth across the majority of our top industry verticals with particular strength in business and professional services, technology and health services with some weakness in telecommunications and financial services.

We are expecting an increase in conversion activity with some of our largest clients in the fourth quarter but are planning to offset this and expect year-over-year Technology growth rates to approximate third quarter levels on a billing day basis.

FA Flex revenues increased sequentially for the second consecutive quarter, though have declined 5.3% year-over-year. The market for our FA Flex business continues to be healthy and we expect revenues to remain stable at these levels for the near term. Average bill rates within FA Flex were up 3.9% year-over-year and 0.9% sequentially. Revenues in the fourth quarter last year were positively impacted by a federal government disaster recovery project related to hurricane relief that did not reoccur. Consequently, revenues will be down from Q4 levels last year. We expect year-over-year revenue declines in the high single digits.

Direct Hire revenue increased 11.8% year-over-year and has been performing well in 2019. Our Direct Hire business continues to be an important capability in ensuring that we can meet the talent needs of our clients through whatever means they prefer. We expect a seasonal sequential decrease in the fourth quarter and for year-over-year growth rates to be impacted by a tougher comp in the fourth quarter of 2018.

We continue to make significant technology and process investments in order to continue improving associate productivity. We are particularly focused on our new talent relationship management system, which will be rolled out to our associates over the next several quarters. This system should improve our capabilities in more effectively and efficiently sourcing, evaluating and deploying talent.

Continued productivity improvements and the expectation of further improvement have allowed us to accelerate revenue growth while maintaining a relatively stable level of sales and delivery associates. We expect this trend to continue and believe we have significant capacity available to further drive growth. We don’t expect to make material additions beyond specific areas where productivity levels are extremely high and building further capacity is warranted.

Our simplified business model, client portfolio and focused service offering has us well positioned for long-term growth. Our focus on the relationships with our clients and candidates is well recognized as we carry a world class Net Promoter score from our Clients and Glassdoor’s highest rating among our competitors.

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I appreciate the trust our clients and candidates have placed in Kforce and our team's efforts in driving our Firm forward. 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 $345.6 million in the quarter grew 4.2% year-over-year and earnings per share from continuing operations of 68 cents grew 21.4% year-over-year.

Our gross profit percentage in the quarter of 29.8% increased 40 basis points year-over-year as a result of a higher mix of Direct Hire revenues and a higher Flex gross profit percentage.

Our Flex Gross Profit percentage increased 10 basis points year-over-year. While we are seeing an increase in rebates and discounts from our largest clients, we are having success growing revenues at other clients where our share of client spend is not quite as significant and the margin profile is more attractive. Additionally, revenue from managed services projects, which also have a more attractive margin profile, is increasing. The 30 basis point improvement in Tech Flex margin, which was 26.8% in the third quarter, was driven by some favorable pricing adjustments. We expect margins, subject to seasonal impacts, to remain closer to Q2 levels prospectively.

Our portfolio is well diversified. No single client represents more than 4.2% of total revenues and our 25 largest clients represent only 40.2% of total revenues.

SG&A expenses increased as a percent of revenue by 10 basis points year-over-year as a result of increased accruals for variable compensation costs related to improved full year performance. Absent these costs, we continued to make progress generating SG&A leverage as our revenues grew. This leverage has been achieved while also significantly increasing our technology investments. We expect to continue to make incremental technology investments to improve productivity and drive operating efficiencies while continuing to improve profitability.

Our third quarter operating margin of 6.4% was in line with expectations and on track with our operating margin objectives. During this economic cycle, our gross margins have declined by approximately 200 basis points due to a decline in the percentage of Direct Hire business and compression in our Flex spreads. Despite this compression, operating margins have improved over 400 basis points, which reflects the success of our efforts to deepen relationships in our existing client base while aligning our infrastructure to optimize efficiency in serving these larger more complex clients.

Our effective tax rate in the third quarter was 25.3%, which was slightly higher than expected due to the non-deductibility of certain performance-based compensation costs.

Our business continues to generate significant operating cash flows, which were $24.2 million in the third quarter. These cash flows coupled with the $102 million of estimated net cash proceeds from the sale of KGS have allowed us to return significant capital to our shareholders. Through the third quarter, we had repurchased $91.3 million, or 2.6 million shares, and paid cash dividends of $12.7 million for a total of $104 million returned to shareholders this year. Additional share repurchases in October marked the completion of the full deployment of the $102 million in estimated net cash proceeds, which was accomplished ahead of schedule. The efficient redeployment of proceeds from the divestitures has allowed us to fully offset the negative impact to our earnings per share from the loss of profitability from the divested businesses through the accretion derived from lowering our share count.

Our net debt at the end of the third quarter was approximately $24 million. The strength of our balance sheet, healthy operating cash flows, low capital requirements and $300 million Credit Facility provide us maximum flexibility to pursue strategic acquisitions that enhance our service offerings to our clients while being appropriately balanced with returning capital to our shareholders.

There are 62 billing days in the fourth quarter, which is two days less than Q3 and the same as the fourth quarter of 2018. A single billing day equates to roughly $5.4 million in revenue. With respect to guidance, we expect Q4 revenues to be in the range of $336 million to $341 million and for earnings per share to be between 65 and 69 cents. Gross margins are expected to be between 29.2% and 29.4%, while Flex margins are expected to be between 26.8% and 27.0%. SG&A as a percent of revenue is expected to be between 23.0% and 23.2% and operating margins should be between 5.7% and 5.9%. Weighted average diluted shares outstanding, are expected to be approximately 22.1 million. Our anticipated effective tax rate is 19.7% in the fourth quarter.

As a reminder, fourth quarter operating margins are impacted by approximately 40 basis points due to a seasonal decline in Direct Hire revenues and the impact of 2 fewer billing days on our fixed cost infrastructure. Additionally, earnings per share estimates include a negative impact of approximately 2 cents related to our share of quarterly losses from the WorkLLama joint venture. We anticipate that our share of the losses in this joint venture could approximate these levels over the next several quarters. These costs are reflected in Other Income and Loss on the Income Statement.

Our expected effective income tax rate of 19.7% for the fourth quarter includes estimated tax benefits on the vesting of restricted stock of approximately $1.1 million, which positively benefits earnings per share by 5 cents in the fourth quarter compared to our normalized tax rate of approximately 26.0%. Due to the vesting schedules of our long-term incentive grants, the impact of this adjustment is reflected almost entirely in the fourth quarter each year.

Our guidance does not consider the effect, if any, of charges related any one-time costs, costs or charges 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.

Finally, having completed the KGS divestiture earlier in the year and finished deploying the related capital, we thought it would be helpful to provide some initial perspective on 2020 as well as to provide additional information on the quarterly impacts of seasonality on our profitability and how that might affect full year results. We have included a table in our Press Release for illustrative purposes to assist in your understanding. We will continue to provide quarterly guidance, which obviously will provide our investor base with the most up-to-date information and expectations.

This table reflects our expectation of continuing to grow our Technology business at year over year growth rates of 6% or better and for our Finance & Accounting revenues to be stable on a billing day basis.

We have provided detail on quarterly operating margin expectations consistent with the targets we have previously established of attaining 6.5% when quarterly revenues reach $350 million and 7.7% at $400 million. You will note the seasonality impacts to these margins in Q1 of 180 basis points, primarily due to annual payroll tax resets, and Q4 of 40 basis points, consistent with the impact we expect this year.

We expect a fairly linear progression towards our operating margin targets. Operating margins are expected to improve by approximately 10 basis points for each incremental $4 million in revenues.

The strong performance noted suggests that revenues will grow between 4.6% and 6.1% and we will generate full year operating margins of between 6.0% and 6.2%. Taking into account our reduced share count of approximately 22 million, this would result in an improvement in full year earnings per share of between 18.2% and 25.1%.

We are excited about our prospects and well positioned to take advantage of a strong market and our exceptional foundation to sustain above market revenue growth rates while improving profitability.