KFORCE

TOGETHER TOWARD **TOMORROW**

Q3 2024
CONFERENCE CALL

Prepared remarks from:
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David M. Kelly, EVP and Chief Operating Officer
Jeffrey Hackman, Chief Financial Officer

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 trends in the operating environment, and the Firm's guidance for the fourth quarter of 2024. 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; changes in client demand or our ability to adapt to such changes; a constraint 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; changes in business or service mix; the ability of the Firm to repurchase shares; the occurrence of unanticipated expenses, income, gains or losses; the effect of adverse weather conditions; changes in our effective tax rate; our ability to comply with government regulations, laws, orders, guidelines and policies that impact our business; risk of contract performance, delays, termination or the failure to obtain new assignments or contracts, or funding under contracts; ability to comply with our obligations in a remote work environment; continued performance and security of, and improvements to, our enterprise information systems; impacts of actual or potential litigation or other legal or regulatory matters or liabilities, including the risk factors and matters listed from time to time in the Firm's reports filed with the Securities and Exchange Commission, including, but not limited to, the Firm's Form 10-K for the fiscal year ended December 31, 2023, as well as assumptions regarding the foregoing. The terms "should," "believe," "estimate," "expect," "intend," "anticipate," "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.

JOE LIBERATORE, PRESIDENT AND CEO

Good afternoon and thank you for your time today. This call contains certain statements that are forward-looking that 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 SEC. We cannot undertake any duty to update any forward-looking statements. You can find additional information about our 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.

Before I summarize our third quarter performance, I'd like to comment on the recent hurricanes that impacted the Tampa Bay area, where our corporate headquarters is located, and more broadly across Florida, North Carolina, and neighboring areas in the Southeast. Hurricanes Helene and Milton had devastating impacts across these areas and impacted our people, their families, our communities, and local businesses. These areas continue to recover and rebuild, and many have long roads ahead. Despite these hardships, our teams' resiliency was on full display, and I am simply in awe of the tremendous efforts by our people to balance their personal safety, taking care of their families and being available for their team members while also ensuring the continuity of Kforce operations. That being said, the impacts are so much larger than Kforce, and I am pleased to announce that Kforce will be donating $500,000 to charitable organizations in the Tampa Bay area and in North Carolina to aid in the broader recovery efforts. We are also organizing a Kforce-wide event dedicated to recovery efforts. We talk about the amazing culture we have at Kforce; seeing it in action, once again, over the last several weeks is truly inspiring.

As for our third quarter performance, revenues exceeded the midpoint of our expectations and earnings per share exceeded the top end of our guidance. Our Technology business has largely been stable for the last four quarters and our third quarter performance was no exception.

While much has been written about the uncertainty in technology hiring and demand, our internal trends and discussions with our clients continue to indicate to us that the current operating environment is more stable and constructive than it was throughout most of 2023. Our footprint of providing solutions to clients that require higher-end skill sets remains in demand, versus lower-skill set areas where there might be a little more softness. We are seeing demand for technology resources, and the desire for our clients to initiate new projects has remained consistent throughout 2024. Clients, broadly speaking, have continued to exercise a degree of caution initiating new technology investments though most critical projects continue to be initiated.

There remains much economic uncertainty with the continuation of heighted geopolitical concerns, tensions in the Middle East and the war in Ukraine, as well as the potential outcome of the U.S. elections next week to name a few. With that said, the 50-basis point Fed rate cut in September with a probability of further rate reductions have strengthened expectations for a soft landing in the U.S. It is likely, however, that clients will remain cautious with their discretionary spending until there is more clarity in the economic outlook.

The by-product of clients being cautious in initiating new investments for a prolonged period is an increasingly strong backlog of strategically imperative technology investments. We expect this backlog to be a high priority for our clients to initiate at an accelerated pace once the macro uncertainties begin to clear.

As we execute through the final quarter of 2024, we will continue to stay close to our performance indicators and trends and make any necessary adjustments to our business. We are continuing to invest in our strategic priorities, which we believe will greatly benefit both top line growth and profitability improvements as markets become more constructive over the longer term.

One of our strategic priorities we have been progressing is the evolution of our nearshore / offshore delivery capabilities. Our teams have been hard at work listening to our clients and monitoring industry trends. Several of our executive team members took a trip to India in August to finalize our go forward plans. Following this visit, we have made the strategic decision to establish a development center in Pune, India. Pune is one of the leading technology cities in India and we are tremendously excited about leveraging this capability to further enhance our service offerings to our clients. Our office space in Pune is in the process of being built and we expect to be operational in January 2025.

While all economic cycles behave a bit differently, what remains clear is that the broad and strategic uses of technology, including the early-stage technology evolution associated with AI, will continue to play an increasingly instrumental role in powering businesses. As we have previously articulated, over the long term, we believe that AI and other innovative technologies will follow the historic Jevons Paradox pattern where improved efficiency ultimately drives greater demand for, rather than replacing technology resources, and that the pace of change will continue to accelerate. We are ideally positioned to meet that demand.

Our core competency is rooted in the ability to identify and provide highly skilled critical resources, real-time at scale, to help world class companies solve complex problems and help them competitively transform their businesses. Our simple, focused operating model also allows us to be flexible and nimble in partnering with our clients to meet their needs across a broad spectrum of engagement forms. We are continuing to experience growth in our solutions offering, which we believe speaks to the depth of our client relationships along with our value proposition to provide cost effective and efficient IT solutions in an addressable IT solutions market that is many times greater than the technology staffing market.

Our decision to grow our business organically with a consistent, refined business model has been critical to our success over many years, and we remain confident that our Firm remains well positioned. I remain confident and excited about the future of Kforce.

Dave Kelly, our Chief Operating Officer, will now give greater insights into our performance and recent operating trends. Jeff Hackman, Kforce's Chief Financial Officer, will then provide additional detail on our financial results as well as our future financial expectations.

DAVID M. KELLY, EVP AND CHIEF OPERATING OFFICER

Thank you, Joe.

Total revenues of $353.3 million were above the midpoint of our expectations for the third quarter, declining 0.8% sequentially and down 6.8% year-over-year on a billing day basis. Flex revenues in our Technology business declined 0.6% sequentially and declined 5.1% year-over-year per billing day.

After experiencing some early July assignment ends, consultants on assignment in our Technology business were stable throughout the third quarter. It remains clear that our clients, broadly speaking, are still awaiting a period of increased confidence to begin more aggressively adding resources to address the significant backlog of important technology initiatives that has built up over the last two-plus years of measured investment. It does appear clear from our performance over the past three or four quarters that trends have stabilized. Based upon our slightly stronger start to October and expected seasonal holiday impacts, we anticipate relatively stable sequential trends in our Technology business in the fourth quarter on a billing-day basis.

Encouragingly, overall average bill rates in our technology business of $90 were flat sequentially and over the last eight quarters have largely been stable. The consistent demand for highly skilled talent on both traditional staffing assignments and project engagements have kept bill and pay rates stable, even as the overall industry trends have slowed in recent years.

Our clients remain focused on critical technology initiatives in the areas of digital, cloud, data governance and analytics, AI and ML, UI/UX, business intelligence, project and program management, and modernization efforts. We have established a foundation of sourcing quality talent, at scale, for our clients as demand for various skillsets change and evolve. We expect this to continue as clients look to us to provide AI-related resources as that demand increases.

As technology has evolved over the decades, we have efficiently evolved with the changing skillset demands of our clients.

Flex margins of 26.1% in our Technology business increased 20 basis points sequentially and 60 basis points year-over-year. Bill-pay spreads in our Technology business modestly improved sequentially, which continues to be an encouraging data point given the cloudiness in the economic environment.

We have continued to broaden our service offerings beyond traditional staffing assignments to include managed teams and project solution engagements. Clients consider access to the right talent essential to their success and see our services as a cost-effective solution for their project requirements. Our integrated strategy capitalizes on the strong relationships we have with world-class companies by utilizing our existing sales teams, recruiters, and consultants to provide higher value teams and project solutions engagements that effectively and cost efficiently address our clients' challenges. An increasingly important vehicle to providing cost effective solutions is the ability to source highly skilled talent outside the United States. As Joe mentioned, we have made the decision to establish a development center in Pune, India. This development center is expected to begin supporting project engagements with our U.S. based clients in January 2025. The establishment of the development center was a strategic imperative informed by conversations with our clients, which further strengthens an offering that has relied primarily of long-standing relationships with a number of nearshore and offshore partners. The India facility puts Kforce in a strong position to effectively compete on client opportunities that we were precluded from bidding on in the past. This development center, when combined with a strong U.S. delivery capability and a high-quality vendor network, will help us to more fully address the evolving needs of our clients.

Our client portfolio is diverse and is mostly comprised of large, market-leading companies. Our focus on addressing their needs continues to be critical in our ability to drive sustainable, long-term above-market performance. From an industry perspective, our largest vertical, Financial Services, experienced improvement sequentially for the second consecutive quarter after some previous headwinds. We also experienced notable growth in both manufacturing and professional services industries. Purchasing activity, even within the same industry, is uneven. We have seen significant growth in some of our largest clients, while others have taken a more conservative approach. This pattern is not industry specific, but rather reflected across the corporate landscape.

Looking forward to Q4, we expect Technology consultants on assignment to remain relatively consistent with the levels we saw at the conclusion of the third quarter. Revenue may be stable to slightly up sequentially on a billing day basis should current patterns persist, and year-over-year declines should be close to third quarter levels.

Our FA business, currently 8.0% of our revenues, declined 2.2% sequentially and declined 21.4% year-over-year on a billing day basis. The year-over-year decline reflects the impact of business we are no longer supporting due to our repositioning efforts and a more challenging macro-environment. Our average bill rate of approximately $52 per hour improved sequentially and is reflective of the higher skilled areas we are pursuing that are more synergistic with our Technology service offering. We expect Q4 FA revenues to be down sequentially on a billing day basis in the low single digits.

Flex margins in our FA business decreased 30 basis points sequentially and we expect bill-pay spreads to remain fairly stable at these levels in Q4.

We continue to manage associate levels based upon productivity expectations. As we have done in prior economic downturns, we are focused on retaining our most productive associates and making targeted investments in the business to ensure that we are well prepared to capitalize on the market demand when it accelerates. For example, we have selectively invested in our sales teams while rationalizing our delivery resources, which are down roughly 11% on a year-over-year basis. Even with these reductions, we believe we have ample capacity to absorb near-term demand should it improve without adding any resources. We also continue to invest in our managed teams and project solutions capabilities and the integration of those offerings within the Firm, which is progressing well.

While the uncertainty in the macro environment has persisted longer than most have expected, I remain tremendously excited about our strategic position and ability to continue delivering above-market performance in our Technology business as we have for over 15 years. The success that we have as an organization doesn't happen without the unwavering trust that our clients, candidates, and consultants place in us. I echo Joe's sentiments in appreciation of the incredible dedication, creativity, and resilience displayed by our teams over the last several weeks balancing personal and professional commitments through devastating hurricanes. I will now turn the call over to Jeff Hackman, Kforce's Chief Financial Officer.

JEFF HACKMAN, CHIEF FINANCIAL OFFICER

Thank you, Dave.

Third quarter revenues of $353.3 million were above the midpoint of our expectations. Earnings per share of $0.75 exceeded the high end of our guidance.

Overall gross margins in the third quarter exceeded our expectations increasing 10 basis points sequentially and 20 basis points year-over-year to 27.9% due to a combination of improved bill pay spreads and more favorable health insurance claims experience, which more than offset the lower Direct Hire mix year-over-year. Flex Margins in Q3 in our technology business increased 20 basis points sequentially and 60 basis points year-over-year due to a slightly more constructive pricing environment and progress growing our solutions business. As we look forward to Q4, we expect Flex Margins to decline sequentially due to the typical seasonal impact of paid time off for our consultants, though average bill rates are expected to remain stable.

Overall SG&A expenses as a percentage of revenue was 22.2%, which was slightly above our guidance expectations. We are continuing to make targeted investments in our sales capabilities while naturally managing down our delivery population. We also continue to advance our enterprise initiatives, including the implementation of Workday, the establishment of our India development center and further integration of our solutions business, all of which are expected to significantly contribute to our longer-term financial objectives and prepare us well for when companies more aggressively invest in their technology initiatives.

Our operating margin of 5.3% was toward the high end of our expectations as we benefited from improved flex margins. Our effective tax rate in the third quarter was 22.3%, which was lower than we expected due to the recognition of 2023 and 2024 research and development tax credits related to the initiative to implement Workday and transform our back office of roughly $1 million. These tax credits benefited earnings per share by roughly four cents in the quarter. Further to that point, we expect to benefit from these tax credits in 2025 and perhaps beyond.

Operating cash flows were approximately $31 million and our return on equity was 33%.

We continue to execute our organically driven business well and we believe our strong relative performance is a result of our focus in Technology staffing and solutions in the U.S. augmented with our nearshore / offshore capabilities. We continue to carry a pristine balance sheet with minimal debt and return capital to our shareholders with over $17 million returned through dividends and share repurchases in the 3rd quarter. This consistent repurchase activity continues to be strongly accretive to earnings. Our current dividend yield is 2.7% and is amongst the highest in our industry. We have returned more than $900 million in capital to our shareholders since 2007, which has represented approximately 75% of the cash generated, while significantly growing our business and improving profitability levels. Our strong predictable cash flows allow us to remain committed to investing in our business while aggressively returning capital regardless of the economic climate. Our threshold for any prospective acquisition remains very high. Our strong balance sheet and the flexibility we have under our Credit Facility provides us with the opportunity to get more aggressive in repurchasing our stock. We have already begun our typical repurchase activity for the fourth quarter and thus far have repurchased nearly $9m in stock under our 10b5-1 corporate repurchase plan.

The fourth quarter has 62 billing days, which is two fewer days than the third quarter of 2024 and one more than the fourth quarter of 2023. We expect Q4 revenues to be in the range of $337 million to $345 million and earnings per share to be between 56 and 64 cents. Our guidance includes a two-cent negative impact from the $500,000 charitable contribution related to hurricane recovery efforts. Our guidance is based upon the assumption of the continuation of a stable environment and does not consider the potential impact of any other unusual or nonrecurring items that may occur.

We remain excited about our strategic position and prospects for continuing to deliver above-market results over the long-term while continuing to make the necessary investments to help drive long-term growth and enable us to achieve our longer-term profitability objective of attaining double digit operating margins at slightly greater than $2 billion in annual revenues.

On behalf of our entire management team, I’d like to extend a sincere thank you to our teams for their efforts.