

Robert Half

Margins under pressure as RHI navigates the “Big Stay”

Reiterate Rating: UNDERPERFORM | PO: 55.00 USD | Price: 81.41 USD

RHI disappointed on what mattered most: 1Q24 guide

RHI posted a roughly in line 4Q EPS. More importantly though: 1Q guidance was much weaker than we expected. Margin guidance was especially discouraging. RHI is contending with a tough macro environment, including weak CEO confidence, easing labor markets, employers hoarding full-time workers/low turnover (the “Big Stay”), and waning wage inflation. See our [US Staffing note](#). We reiterate Underperform amid these challenges. We’re lowering our PO by \$4 to \$55 on lower estimates. We’re also rolling forward valuation to 2025, although our valuation multiple is unchanged at 14.5x EPS.

4Q EPS beat Street by a penny

4Q’s \$0.83 EPS was 1c below our \$0.84, but above \$0.82 Visible Alpha consensus. The miss to us was on lower sales ((14.7)% vs. our (14.0)%E), while op margin was in line (at 7.7%). RHI guided 1Q EPS to \$0.54-0.68, 31/25% below our/the Street’s estimates. The guide reflects a 10-15% sales decline and 4-7% op margins. Similar to 3Q, RHI optimistically pointed to week-on-week sales declines moderating as an early indicator of stabilization. We need to see more macro improvement before getting constructive. We lower our 2024/25E EPS to \$3.04/3.82 (from \$4.08/5.01 prior).

Demand starting off low in 2024 does not bode well

1Q sales guide was weaker than we expected ((12.5)% y/y at midpt vs. our (10.6)%E prior). This factors in 16.5% & 4.5% declines at the staffing & consulting (Protiviti) segments. Protiviti’s weakness has been a surprise given its resilience during COVID.

Permanent staffing still very weak

Permanent staffing fell 22.6%, while contract-to-hire (temp placements that converted to full-time workers) fell 24% y/y. This compares to 3Q’s (22.5)% and (29)%. These are higher-margin sales, so the declines have an outsized negative impact on total margins.

Protiviti margins are not holding up well

RHI’s 4-7% 4Q23 op margin guidance reflects 220bp of sequential margin deterioration at the mid-point. It also missed our/the Streets outlooks by 240bp and 210bp. Protiviti’s margins drive the sequential step-down. Guidance implies a ~6% q/q decline in Protiviti margins (to 4-7%) due to 1) weak sales growth, 2) raises/promotions, and 3) seasonally low utilization of bench workers. We assume margins improve q/q in 2Q-4Q.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.03	3.88	3.04	3.82	4.44
EPS Change (YoY)	12.5%	-35.7%	-21.6%	25.7%	16.2%
Consensus EPS (Bloomberg)			3.91	4.88	5.07
DPS	1.72	1.92	2.11	2.32	2.55
Valuation (Dec)					
P/E	13.5x	21.0x	26.8x	21.3x	18.3x
Dividend Yield	2.1%	2.4%	2.6%	2.9%	3.1%
EV / EBITDA*	8.4x	12.7x	15.8x	13.6x	11.9x
Free Cash Flow Yield*	7.1%	7.5%	4.7%	4.8%	5.5%

* For full definitions of *IQmethod*SM measures, see page 4.

30 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	59.00	55.00
2024E Rev (m)	6,263.3	6,171.7
2025E Rev (m)	6,813.4	6,678.6
2026E Rev (m)	7,385.6	7,206.7
2024E EPS	4.08	3.04
2025E EPS	5.01	3.82
2026E EPS	5.66	4.44

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Stock Data

Price	81.41 USD
Price Objective	55.00 USD
Date Established	30-Jan-2024
Investment Opinion	B-3-7
52-Week Range	64.65 USD - 89.78 USD
Mrkt Val (mn) / Shares Out (mn)	8,721 USD / 107.1
Free Float	97.2%
Average Daily Value (mn)	72.25 USD
BofA Ticker / Exchange	RHI / NYS
Bloomberg / Reuters	RHI US / RHI.N
ROE (2024E)	21.0%
Net Dbt to Eqty (Dec-2023A)	-46.1%
ESGMeter™	High

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Timestamp: 30 January 2024 09:57PM EST

iQprofileSM Robert Half

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	39.5%	23.5%	18.7%	25.0%	29.7%
Return on Equity	44.6%	26.0%	21.0%	28.4%	33.9%
Operating Margin	12.3%	8.6%	6.9%	8.0%	8.7%
Free Cash Flow	623	658	413	423	479

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.7x	1.5x	1.2x	1.2x
Asset Replacement Ratio	0.8x	0.5x	0.8x	0.9x	1.0x
Tax Rate	26.6%	28.7%	28.7%	28.7%	28.7%
Net Debt-to-Equity Ratio	-42.0%	-46.1%	-43.2%	-39.0%	-35.6%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	7,238	6,393	6,172	6,679	7,207
% Change	12.0%	-11.7%	-3.5%	8.2%	7.9%
Gross Profit	3,092	2,580	2,440	2,669	2,941
% Change	14.4%	-16.6%	-5.4%	9.4%	10.2%
EBITDA	967	641	514	597	682
% Change	9.1%	-33.7%	-19.9%	16.1%	14.4%
Net Interest & Other Income	8	24	18	12	8
Net Income (Adjusted)	658	411	315	390	451
% Change	9.9%	-37.5%	-23.5%	24.1%	15.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	658	411	315	390	451
Depreciation & Amortization	78	88	91	61	58
Change in Working Capital	(129)	171	3	(56)	(61)
Deferred Taxation Charge	11	(2)	(2)	(2)	(2)
Other Adjustments, Net	66	36	75	84	92
Capital Expenditure	(61)	(46)	(69)	(55)	(59)
Free Cash Flow	623	658	413	423	479
% Change	9.9%	5.7%	-37.3%	2.5%	13.2%
Share / Issue Repurchase	(320)	(255)	(250)	(200)	(200)
Cost of Dividends Paid	(189)	(206)	(218)	(237)	(259)
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	659	732	607	522	469
Trade Receivables	1,018	861	848	918	990
Other Current Assets	608	642	603	653	704
Property, Plant & Equipment	110	108	123	116	117
Other Non-Current Assets	570	668	631	631	631
Total Assets	2,964	3,011	2,813	2,840	2,912
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,216	1,235	1,220	1,312	1,407
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	180	187	187	187	187
Total Liabilities	1,396	1,422	1,407	1,499	1,594
Total Equity	1,569	1,588	1,406	1,341	1,318
Total Equity & Liabilities	2,964	3,011	2,813	2,840	2,912

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Business Services

Company Description

Robert Half provides temporary workers and permanent placement services in accounting, IT and other professional occupations. The company also provides internal audit and risk consulting through its Protiviti division. Robert Half has 382 offices in 20 countries. Its largest markets are the US (79% of total revenues), UK, and Canada.

Investment Rationale

Our Underperform rating reflects our view that sales and earnings will soften against tough comparisons and a weakening GDP outlook. We expect valuation to remain under pressure as GDP projections continue to rerate lower.

Stock Data

Average Daily Volume 925,970

Quarterly Earnings Estimates

	2023	2024
Q1	1.14A	0.60E
Q2	1.00A	0.76E
Q3	0.90A	0.82E
Q4	0.83A	0.85E

Price objective basis & risk

Robert Half (RHI)

Our \$55 price objective applies a 14.5x CY25E EPS, which is below RHI's recent mid-cycle FY2 P/E multiple range (15-20x) given recession risk. We think this is warranted with the labor market peaking and GDP decelerating.

Upside risks to our price objective are: 1) the tight labor market and wage inflation more than offsets slowing GDP, 2) GDP growth is better than expected, and 3) continued outperformance by the Protiviti segment.

Downside risks to our price objective are: 1) a lower than projected outlook, 2) weaker than anticipated demand from small business, 3) larger than expected revenue deceleration at Protiviti, 4) a decline in gross margin due to pricing pressure, and 5) increased regulation of temporary help.

Analyst Certification

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US - Business, Education & Professional Services Coverage Cluster

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BUY				
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	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Dun & Bradstreet Holdings, Inc.	DNB	DNB US	Heather Balsky
	Equifax	EFX	EFX US	Heather Balsky
	Gartner	IT	IT US	Heather Balsky
	Moody's Corp.	MCO	MCO US	Heather Balsky
	S&P Global	SPGI	SPGI US	Heather Balsky
	Strategic Education	STRA	STRA US	Heather Balsky
	Thomson Reuters	YTRI	TRI CN	Heather Balsky
	Thomson Reuters	TRI	TRI US	Heather Balsky
NEUTRAL				
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
UNDERPERFORM				
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	Clarivate PLC	CLVT	CLVT US	Heather Balsky
	ManpowerGroup	MAN	MAN US	Heather Balsky
	MSCI Inc	MSCI	MSCI US	Heather Balsky
	Robert Half	RHI	RHI US	Heather Balsky
	TransUnion	TRU	TRU US	Heather Balsky



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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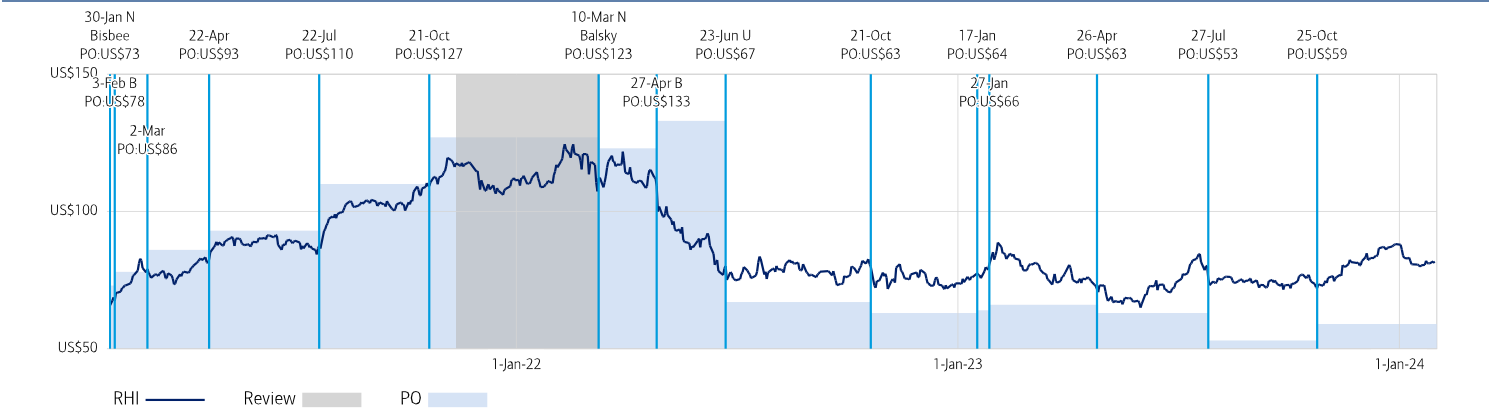
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Robert Half (RHI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Business Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	26	55.32%	Buy	17	65.38%
Hold	8	17.02%	Hold	3	37.50%
Sell	13	27.66%	Sell	11	84.62%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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