Seeking Alpha
Transcripts | **Services**

Robert Half International Inc. (RHI) CEO Max Messmer on Q3 2019 Results - Earnings Call Transcript

Oct. 23, 2019 10:10 PM ET
by: SA Transcripts

Q3: 10-23-19 Earnings Summary

Press Release *10-Q*

EPS of $1.01 beats by $0.01 | Revenue of $1.55B (5.86% Y/Y) beats by $4.66M

Earning Call Audio

Subscribers Only

00:00 -36:07

Robert Half International Inc. (NYSE:RHI) Q3 2019 Results Earnings Conference Call
October 23, 2019 5:00 PM ET

Company Participants

Max Messmer - Chairman & Chief Executive Officer

Keith Waddell - Vice Chairman, President & Chief Financial Officer

Conference Call Participants

Mark Marcon - Baird

Andrew Steinerman - JP Morgan

Jeff Silber - BMO Capital

Kevin McVeigh - Credit Suisse

Tobey Sommer - SunTrust

Gary Bisbee - Bank of America Merrill Lynch

Manav Patnaik - Barclays

George Tong - Goldman Sachs

Operator

Hello, and welcome to the Robert Half Third Quarter 2019 Conference Call. Our hosts for today's call are Mr. Max Messmer, Chairman and CEO of Robert Half; and Mr. Keith Waddell, Vice Chairman, President and Chief Financial Officer. Mr. Messmer, you may begin.

Max Messmer

Thank you and hello everyone. We appreciate your joining us on today's call. As a reminder, the comments made on our call contain predictions, estimates and other forward-looking statements. These statements represent our current judgment of what the future holds and include words such as forecast, estimate, project, expect, believe, guidance and similar expressions. We consider these remarks to be reasonable. However, they are subject to risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Some of these risks and uncertainties are described in today's press release and in our SEC filings, including our 10-Ks, 10-Qs and today's 8-K. We assume no obligation to update the statements made on today's call. For your convenience, our prepared remarks for today's call are available in the Investor Center of our website at roberthalf.com. From the home page, click on the Investor Center link at the bottom left of the page.

Now let's review Robert Half's third quarter financial results. Revenues for the company were $1.552 billion, up 6% from last year's third quarter on a reported basis and up 5% on a same-day constant currency basis. Third quarter net income per share was $1.01 versus $0.95 in the same period one year ago. This is a 7% increase year-over-year.

Cash flow from operations was $191 million in the third quarter and capital expenditures were $17 million. In September, we distributed a $0.31 per share cash dividend to our shareholders of record for a total cash outlay of $36 million. We also repurchased approximately 1.5 million Robert Half shares during the quarter for $80 million. We have 3.4 million shares available for repurchases under our board-approved stock repurchase plan.

Persistent talent shortages resulted in continued strong demand for our staffing services in the third quarter, particularly in the United States. Robert Half Management Resources was the standout among our staffing lines of business and our Protiviti subsidiary also had a very strong quarter.

We are pleased with the continued momentum we are seeing in our U.S. staffing and Protiviti operations. Return on invested capital for the company was 42% in the third quarter.

I'll turn the call over to Keith now for a more detailed look at our third quarter results.

Keith Waddell

Thank you, Max. As just noted, global revenues in the third quarter were $1.552 billion. This is up 6% from the prior year's third quarter on a reported basis and up 5% on a same-day constant currency basis from the year ago period. Accompanying our earnings release today as a supplemental schedule showing year-over-year revenue growth rates on both a reported and as adjusted basis. These figures are further broken out by U.S. and non-U.S. operations. The term as adjusted reflects the removal of the impact of billing days, currency fluctuations, and certain intercompany adjustments and our international operations. This is a non-GAAP financial measure designed to provide insight into certain revenue trends in our operations. On an as adjusted basis, third quarter staffing revenues were up 3% year-over-year. U.S. staffing revenues were $973 million, up 5% on an as adjusted basis.

Non-U.S. staffing revenues were $280 million, down 0.3% year-over-year on an as adjusted basis. We have 325 staffing locations worldwide including 86 locations in 17 countries outside the U.S.

There were 64.1 billing days in the third quarter versus 63.3 days in the same quarter one year ago. The current fourth quarter has 61.7 billing days, equivalent to the fourth quarter one year ago.

Currency exchange rate movements during the quarter had the effect of decreasing reported year-over-year staffing revenues by $11 million. This reduced our year-over-year reported staffing revenue growth rate by 0.9 percentage points. Now let's take a look at the results for Protiviti, global revenues in the third quarter were $299 million, $235 million of that is from the United States and $64 million is from operations outside the United States. On an as adjusted basis, Protiviti global revenues were up 15% versus the year ago period.

On an as adjusted basis, U.S. Protiviti revenues in the third quarter were up 16% from the prior year, non-U.S. revenues were up 9% on an as adjusted basis. Exchange rates had the effect of decreasing year-over-year Protiviti revenues by $2 million and decreasing the year-over-year reported growth rate by 0.8 percentage points. Protiviti and its independently owned member firms serve clients through a network of 86 locations in 27 countries.

Now let's turn to gross margin. In our temporary and consulting staffing operations, third quarter gross margin was 37.9% of applicable revenues compared to 37.8% of applicable revenues in the third quarter one year ago. In our permanent placement business, revenues were 10.7% of consolidated staffing revenues in the third quarter of 2019, which is flat compared to the last year's third quarter.

When combined with temporary and consulting gross margin, overall staffing gross margin rose 10 basis points compared to the year ago third quarter of 44.6%. Protiviti gross margin was $88 million in the third quarter or 29.5% of Protiviti revenues. One year ago, Protiviti gross margin was $71 million or 28.1% of Protiviti revenues. Staffing SG&A costs were 34.7% of staffing revenues in the third quarter compared to 34.1% in last year's third quarter. SG&A costs for Protiviti in the third quarter were 16.2% of Protiviti revenues versus 18.0% of revenues in the year ago period.

Third quarter operating income from our staffing divisions was $123 million. Operating margin was 9.8% of this amount. Our temporary and consulting staffing divisions reported $101 million in operating income and produced an operating margin of 9.1% while our permanent placement division reported operating income of $22 million and produced an operating margin of 16.2%. Third quarter operating profit for Protiviti was $40 million resulting in an operating margin of 13.3%. Accounts receivable were $853 million at the end of the third quarter and implied days sales outstanding were 49.3 days.

Before we move to fourth quarter guidance, let's review some of the monthly trends we saw in the third quarter of 2019 and thus far in October, all adjusted for currency and billing days. Our temporary and consulting staffing divisions exited the third quarter with September revenues up 2.8% versus the prior year compared to 3.4% for the full quarter. Revenues for the first 2 weeks of October were up 4% compared to the same period in October 1 a year ago when revenues were up 9%. Permanent placement revenues in September were up 0.5% compared to September of 2018. This compares to 3.4% increase for the full quarter.

For the first 3 weeks in October, permanent placement revenues were essentially flat compared to the same period last year, when revenues were up 20%. We provide this information so that you have insight in some of the trends we saw during the third quarter and into October but as you know, these are very brief time periods, we caution against reading too much into them. With that in mind, we offer the following fourth quarter guidance, $1.5 billion to $1.565 billion, income per share $0.94 to $1.

The midpoint of our guidance implies year-over-year revenue growth of 4% on a same-day, as-adjusted basis including Protiviti and EPS growth of 2%. The projected tax rate is 28% compared to 27% a year ago. Compared sequentially to the third quarter just ended, the of our guidance implies negative revenue and EPS growth of 1% and 4% respectively. This differs from typical seasonal trends due to the loss of an extra billing day between the third and fourth quarters of 2019 and 2018. In 2019, we lose 2.4 days sequentially, whereas in 2018, we lost only 1.6 days between quarters. Limiting our guidance to one quarter, all estimates we provide on this call are subject to the risks mentioned in today's press release and in our SEC filings.

Now, I'll turn it back over to Max.

Max Messmer

Thank you, Keith. We were pleased with the company's third quarter results and encouraged by the continued momentum we're seeing in our U.S. staffing and consulting operation. As we noted earlier, Protiviti had a particularly strong quarter. Demand for Protiviti services was broad-based across all of its consulting and internal audit solutions including its managed solutions offering to provide a jointly with our staffing operations. Our staffing operations are benefiting from the strong labor market, particularly in the United States. In September, the U.S. unemployment rate fell to 3.5%.

The last time the rate was this low was in December 1969. Staffing challenges are particularly acute for companies that are making technology investments. The skills required for digital transformation projects are in short supply, which is fueling higher demand for specialized staffing services like ours.

We believe global labor shortages are going to have a durable impact on hiring demand. The Vistage CEO Confidence Index showed a decline in overall confidence among CEOs, the small and mid-sized businesses in September. Yet nearly 60% of these CEOs plan to hire in the year ahead, a 4-point increase from the prior month.

While many of the various business confidence indices are off their historic highs, they remain at strong absolute. We are focused on technology investments within Robert Half as we've talked about on this call in the past. Whether customers engage with us online or in person, we can provide a seamless experience supported by technology and the expertise of our local staffing experts.

That's a unique combination, which we believe is a key differentiator for Robert Half. We also see the blended solutions offered by our staffing and Protiviti operations as an important differentiator. Protiviti's 2019 global finance trends survey found that managed solutions models where major projects are handled by a blend of full-time staff, contract professionals and third party experts are gaining in popularity as an alternative to traditional outsourcing arrangements. We believe we are uniquely qualified to provide these diverse staffing and consulting solutions all under one roof.

Now Keith and I'd be happy to answer questions. We ask that you please limit yourself as usual to one question and a single follow-up as needed. If time permits, we'll certainly try to return to you if you have additional questions. Thank you.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Mark Marcon from Baird. Your line is open. Please go ahead.

Mark Marcon

Good afternoon, Max and Keith. I thought the quarter was really good, particularly as it relates to both Protiviti as well as management resources. I was wondering if you could talk a little bit about the growth that you're seeing in your blended solutions, your managed solutions combination and where is that in terms of its development? What sort of potential do you see out of that?

That's one question. And then the follow-up has to do with the guidance, and I'm just wondering Keith, sometimes you provide some detail with regards to what you're explicitly expecting by segment both in terms of trends as well as from a margin perspective? Thank you.

Keith Waddell

So, our blended solutions did quite well yet again. As Max said earlier, Protiviti growth was broad-based across all of its solutions areas. Blended solutions -- we can manage -- business Solutions managed, Technology solutions did particularly well. Clients certainly appreciate the deep subject matter expertise they get from Protiviti and the scalable variable resources they get from staffing. They get that all under one roof. Whether they're building something new, whether they're fixing a problem, whether they're cleaning up a backlog, all three are perfect use cases for that blended solution.

As far as development, we think it's early days. Potential, we think is tremendous. It's clearly for 3 or 4 quarters in a row, been one of our fastest growing operations and we believe there is a lot of upside from where we are. On guidance, maybe we'll just go down the P&L a bit. For revenues with staffing, we're basically seeing year-over-year growth rate staying essentially flat with the third quarter. The U.S. stayed strong. Europe continues to slow but the comps do get 4 points easier.

We're particularly pleased with how we're doing in the U.S. The macro and trade policy uncertainty that's in the news every day seems mostly limited to manufacturing and its supply chain and we don't have a lot of exposure to that.

So, we're holding up very well in our judgment in the U.S. Because it's the fourth quarter, there is always calendar anxiety, this year maybe moreso than most because the holidays fall on Wednesday. The concern is that more people decide to take the 4-week off both candidates and clients which could have more impact than it typically does, but again revenue, staffing, year-over-year growth rate is essentially flat with Q3.

Revenues Protiviti. They will slow modestly in part because the comps are the toughest, yet they were up 19% a year ago. In the international zone, they have a couple of large projects that ended -- that will take them a little time to replace.

Further with Protiviti because they've been so busy this year, their staff have deferred a lot of their time off. That time off is scheduled heavier in December than is typically the case, partly because of the Wednesday date that I talked about and partly because they just have more differed time off. That effectively shortens the quarter even more for Protiviti, so modest slowing in the year-over-year growth rates for Protiviti.

Temp [Ph] gross margin flat-to-up 20 basis points. Protiviti gross margin down 30 to 50 basis points because of the time off and holiday impacts that I just talked about. Effectively, they utilize their staff less because of that downtime. SG&A, staffing up 50 to 70 basis points year-on-year primarily due to negative leverage from the international zone. Protiviti SG&A down 50 to 70 basis points year-on-year, operating leverage due to higher revenues. That means operating income for staffing down 40 to 60 basis points year-on-year. Protiviti up 10 to 30 basis points year-on-year, tax rate 27.5% to 28% more non-deductible cost pursuant to the last tax law change, shares about 115 million.

Mark Marcon

That's great. So it sounds like you're actually seeing good trends. You're just basically, when we take a look at the guidance for the fourth quarter, you're basically accounting for that calendar anxiety to a certain extent. And also on the Protiviti side we've got some vacation that we have to give our folks that's been deferred. Is that a correct summary? I mean it doesn't sound like you're seeing any sort of change from a macro perspective, Q4 relative to Q3.

Keith Waddell

Not at all, particularly in the U.S. As I said earlier, where we think we take the trends pretty much intact into Q4, we are particularly happy about our start for this quarter. The early part of September coming back from the holidays was a little soft, but we picked up the second part of September, which continued to October that we're happy about. Protiviti's pipeline is very strong. One of their market leaders on the call yesterday actually described it as all switches are in their on position. So I thought that was a perfect way to describe kind of the tone of business for Protiviti particularly in the U.S.

Mark Marcon

That's great to hear. Thank you.

Operator

Your next question is from Andrew Steinerman from JP Morgan. Your line is open. Please go ahead.

Andrew Steinerman

Hi, Keith. I hope you are going to allow me a cyclical question here. And I definitely heard you already about the calendar anxiety. But my question is looking past just fourth quarter guide of 4% revenue growth; is it everything sort of in place for higher growth, it you know the tight labor market, conducive real GDP, still high small business confidence, even though it is off higher levels, and so like as we think maybe even past fourth quarter, shouldn't we have a backdrop that could give us, let's say, higher than 4% growth as we move further out?

Max Messmer

Well, we would agree with all the observations that you just made. We would also note that if you look at our compares for the next few quarters, they get easier not harder, that's also better. So, we're bullish and we're particularly bullish in the U.S., we have seen some slowing outside the U.S., Europe, the UK for reasons that are well chronicled, but it's certainly not abruptly declining. But the trend line does show a declining, maybe not to the extent they did in the third quarter, but declining nonetheless.

Andrew Steinerman

Okay, thank you.

Operator

Your next question comes from Jeff Silber from BMO Capital. Your line is open. Please go ahead.

Jeff Silber

Thank you so much. In your prepared remarks, you alluded to the fact that Robert Half Management Resources was really the stand out among staffing, was that because of the work that you're doing with Protiviti or is there something else going on in that unit?

Max Messmer

So, it is not because of the work we're doing with Protiviti, which is actually classified as Protiviti, this is their work. Other than that, I'd say a few observations, one, their clients have leaner middle management, which means anytime they have a project or anything out of the ordinary, they're more in need for specialized skills, particularly higher level, which is where management resources focuses.

Further, the candidate supply for Robert Half Management Resources is very different than for account temps as an example, Management Resources has access to a lot of people that have chosen to be contractors or consultants as a career, and that essentially is not the case at all with account temps. Further, the management resources candidates will travel and clients will pay for that travel, which further helps from a supply point of view. So, a very different candidate supply story for management resources then is the case for account temps.

Jeff Silber

Okay, that's helpful. I appreciate that. I know you're not giving guidance beyond the current quarter, but we've got a model out beyond that. From a tax rate perspective, is there anything we should know about in 2020 in the same thing, in terms of capital expenditures for next year? Thanks.

Max Messmer

I'd say the tax rates are going to be generally between 27% and 28%, it grew somewhat between quarters you can smooth to the extent you used to could [Ph]. On the capex, they were somewhat elevated this year and we would expect they would continue to be elevated next year as well.

Jeff Silber

Okay, great, thank you so much.

Operator

Your next question comes from Kevin McVeigh from Credit Suisse. Your line is open. Please go ahead.

Kevin McVeigh

Great, thanks. Hey, Keith, could you give us a sense of, and I don't think you mentioned, what the bill pay spreads were in the quarter and then, just along those lines, how are your hiring plans shaping up?

Keith Waddell

So, for bill rate increases this quarter, they were up 4.8% year-on-year, that's a little less than it was last quarter and that's after dilution from non-U.S. operations. The U.S. rate is higher, if you look back in the '04 to '08, '09 period, it's not unusual to see swings as much as a full percentage point in our bill rate increases. So 4.8 versus 5.4 last quarter, we don't read any particular significance in two. Hiring rate, we did continue to hire particularly late in the third quarter, which follows in to the fourth quarter, so that we can support our U.S. growth rate. We've clearly moderated our hiring outside of the U.S. given macro conditions there.

Kevin McVeigh

Thank you.

Operator

Your next question comes from Tobey Sommer from SunTrust. Your line is open. Please go ahead.

Tobey Sommer

Thanks. This is Jasper Bebon [Ph] for Tobey today. Based on the NFIB data, it seems finding available talent has been the biggest issue for clients recently, but with small business confidence pulling back a bit, has caution in hiring elongated the time it takes for you to find hires as well?

Max Messmer

So, the shorter answer is, there isn't elongation, but it isn't because of macro uncertainty. It's more about, it's so intense, the competition for candidates. One of the biggest issues we have particularly on the perm side, we spend all this time getting a candidate, all the way to the point where the client makes the offer, that candidate goes back to their existing employer, the existing employer counters that and they don't leave their existing employer. We've done all of the work we would otherwise do to make the placement, yet it doesn't happen. So, the stress point is not that there is a lack of demand or lack of job orders, the stress point is the candidates tightness.

Tobey Sommer

Great, thanks.

Max Messmer

As I said earlier, we're not particularly exposed to manufacturing or manufacturing supply chain and our end markets have held up, we think, reasonably well in the United States.

Tobey Sommer

That makes sense. Thank you.

Operator

Your next question is from Gary Bisbee from Bank of America Merrill Lynch. Your line is open. Please go ahead.

Gary Bisbee

Thanks. Yes, any more color you can provide on the international performance, obviously slowing there, but again it's quite tough comps, but relative to the data in major markets in Europe and other places that your growth continues to look quite strong. So, how is that trending? How are you thinking about that and was there any defined change in pattern during the quarter? Thank you.

Max Messmer

So, as we talked about on the last call and is in fact played out, we did see slowing, Germany is our biggest market. It slowed, but it still has a positive year-over-year growth rate. Australia was strong, Canada still stayed strong. But if you look at Belgium, when you look at the UK, we did see slowing trends which are expected to continue, be it macro slowing, be it trade uncertainty slowing, be it Brexit, all of those are at play, but we are barely negative year-on-year and we would expect to get a little more negative year-on-year in the fourth quarter. But as I said earlier, it is helpful that our comps get four points easier in the fourth quarter versus the third.

Gary Bisbee

Great, thanks. And then, the follow-up just on the perm business, when I look back over time in years where there was more uncertainty in that business, sometimes has cooled more aggressively into year-end, as companies just defer hires to the next year, relative to stronger either business sentiment or macro conditions, how are you thinking about the perm business both in the U.S. and overall as we trend through October, November, December?

Max Messmer

Because of the overall environment is one where there's plenty of demand, plenty of orders and the issue is candidates, we don't have the traditional concern that the demand pauses or slows in the fourth quarter. That said, December as a month for the perm business, there is always uncertainty attached to, and we're not discounting that. We've talked a little bit about that earlier, but it's more about getting candidates identified, agreed to, and they actually make the job change and they make the job change to our client. They don't stay put, they don't take yet another offer that they've gotten somewhere else. So, for us it's about candidate control more so than it is job orders.

Gary Bisbee

That's helpful, thanks.

Operator

[Operator Instructions] Your next question comes from Manav Patnaik from Barclays. Your line is open. Please go ahead.

Manav Patnaik

This is Ryan on for Manav. I'm just curious, it's interesting, your comments about not really feeling any of the uncertainty in the U.S. If you look back over the past couple of years, I mean there have been some pauses related to elections or tax reform. I guess from your conversations, what's different, even just from a pure headline standpoint of people maybe thinking about holding back on hiring, just because of all the different things we've seen going on that's obviously impacting Europe?

Max Messmer

I would reference a study that was published, an economic study that was published based on Bureau of Economic Analysis in late October. The headline is 'Job growth slowdown', it seems likely to be contained, there's evidence of spillovers from manufacturing into other industries, other than supply chain. So, I think the point is, because we're not that exposed to manufacturing and because of the slowdown seems focused on manufacturing, the other pauses, as you described, are more broader than just manufacturing and that's how I would distinguish the two.

Manav Patnaik

Fair enough. And then, a lot of technology investments we've talked about on the call here. Can you maybe talk about uptick in the use of the app throughout the quarter and how you think about that going into next year?

Max Messmer

Well, we're very pleased with how the app has launched. The engagement we've gotten from those that come is principally candidate-focused. We continue to add additional functionality, improve the user experience, personalize that user experience on both our app and online. We are also continuing to expand the used cases where we leverage our data using AI and ML, that's on the app, as well as online. We use it in how we market, how we sell, how we recruit, how we match and fill jobs.

We're pleased with where we are with our digital strategy, with the implementation of what we've done, a large part of that initial investment was in digital marketing, which is personalized, micro-targeted as to who gets it, when they get it, what the message is. We talked on the last call about we're inviting candidates that match to all our new job orders for doing that at scale. We've never done that before. So, we feel good about our digital strategy and we've got more to come.

Manav Patnaik

Great, thank you.

Operator

Your next question comes from George Tong from Goldman Sachs. Your line is open. Please go ahead.

George Tong

Hi, thanks, good afternoon. You indicated that temp staffing exited the third quarter with September revenue up 2.8% year-over-year compared to 3.4% for the full quarter. Can you discuss what factors contributed to the slowdown?

Max Messmer

As I said earlier, early September was a little soft coming out of the holidays, but we picked up later September and in October, because we also put in the script there that our October growth rate year-on-year was 4%. So, we did better, latter part of September and in October, and it's actually an acceleration, not a deceleration.

George Tong

Got it, that's helpful. So, you're maintaining your hiring rate in the fourth quarter relative to the third quarter in the U.S., based on what you said earlier, moderating a little bit in the EU. Can you help unpack that specifically, how quickly you're scaling up your recruiters in the U.S. and what degree of moderation in hiring you're seeing in the EU?

Max Messmer

We tried to roughly acquaint our hiring rate to our top-line growth rate. So, the EU is flat to down slightly. That's what our hiring plan looks like in EU, the U.S. is growing 4% to 5% and that's what the hiring plan looks like.

and that's what the hiring plan looks like.

George Tong

Got it. Thank you.

Max Messmer

That was our last question. We'd like to thank everyone again for joining us today.

Operator

This concludes today's teleconference. If you missed any part of the call, it will be archived in audio format in the Investor Center of Robert Half's website at www.roberthalf.com. You can also dial the conference call replay. Dial-in details and the conference ID are contained in the company's press release issued earlier today.