

2018 FIRST QUARTER CONFERENCE CALL SCRIPT

April 23, 2018

Julie Creed, Vice President Investor Relations & Real Estate

Good afternoon everyone, and thank you for participating in Heidrick & Struggles 2018 first quarter conference call. Joining me on today's call is our President and CEO, Krishnan Rajagopalan, and our Chief Financial Officer, Mark Harris. We have posted our first quarter slides on the IR home page of our website at heidrick.com and we encourage you to print them for additional context, but we won't be referring to specific page numbers during our opening comments.

Today we will be using the terms "Adjusted EBITDA and Adjusted EBITDA Margin." These are non-GAAP financial measures that we believe better explain some of our results. A reconciliation between GAAP and non-GAAP financial measures can be found in a schedule at the end of the release, and in our supporting slides. Throughout the course of our remarks, we will be making forward-looking statements and ask that you please refer to the Safe Harbor language contained in our news release and on SLIDE 1 of our presentation.

Krishnan, I'll turn the call over to you.

Krishnan Rajagopalan, President & Chief Executive Officer:

Good afternoon and thank you for joining our call. Last quarter we introduced Mark Harris as our incoming CFO following Rich Pehlke's retirement. Mark, it is great to have you here today, now fully entrenched in the role.

As you have seen from our press release, we reported a strong first quarter, continuing on the positive momentum that we saw at year end—both momentum in the market and momentum inside the firm.

On almost every meaningful metric, we reported growth and improvement in year-over-year results.

- Consolidated net revenue increased 14%.
- Executive search revenue was up 17%.
- Operating income grew 98%.
- Operating margin improved to 8.2%.
- And diluted earnings per share was 53 cents compared to 3 cents in last year's first quarter.

I'd like to thank our employees around the world for driving these strong first quarter results.

I am quite proud of what we achieved financially while executing on a number of strategic and operational initiatives. We finished formally integrating leadership consulting and culture

shaping and launched a new business – Heidrick Consulting. We launched our digital client portal and our new IP-based assessment methodology, and are now active with clients globally on both. And we continued executing the restructuring that was announced in early January.

Now let me turn the call over to Mark to further discuss the financial results.

Mark Harris, Chief Financial Officer:

Thank you Krishnan and let me reaffirm what was just said, supplemented through financial analytics. At the conclusion it will be obvious -- this was an outstanding first quarter for me to be a part of.

Before I get into the results, I will discuss the impact of the new revenue recognition methodology, commonly referred to as ASC 606. As we previously discussed on earnings calls, the adoption of this standard in the first quarter of 2018 increased our reported consolidated net revenue by \$2.5 million compared to the historical method of revenue recognition or 2% of the first quarter's net revenue. The change in methodology mostly affected how we recognize revenue associated with upticks for executive search contracts and for licenses related to our proprietary culture shaping tools, which we refer to as Enterprise Agreements. It resulted in an increase in revenue in Executive Search of approximately \$3.5 million in the quarter and a deferral of revenue in Heidrick Consulting of \$1.0 million. For the full year we are currently expecting the change in revenue recognition will not be material to our consolidated net revenue, but this is all subject to variability in the number, timing and value of Executive Search confirmations, as well as our clients' use and renewals of our enterprise license agreements.

With that, I'll move to our results. Consolidated net revenue was up \$20 million or 14% year over year, driven by great results in Executive Search, up 17% year over year to \$146 million. All of the Search business KPI's helped drive these results. For example, Search confirmations were up 5% year over year with strong performance from the Financial Services, Global Technology & Services and Consumer Markets practices. Productivity and average retainers also improved compared to last year's first quarter. From our segment reporting you can see that we achieved double-digit growth in all regions; Americas was up 12%, Europe was up 36%, and Asia Pacific was up almost 13%.

While Heidrick Consulting did see a revenue retraction of approximately \$1.3 million in the first quarter of 2018, \$1 million of this decline in revenue was due to the new revenue recognition deferral in the quarter. Irrespective of the revenue decline, we are quite encouraged by what we are seeing in Heidrick Consulting. They are showing steady improvements in the business, including an increase in their pipeline.

Salaries and Employee benefits saw an increase of \$14.2 million from the first quarter 2017, \$12.2 of which was related to an increase in variable compensation given the strong performance in Search on a comparative basis. We also made some strategic additions to consultant headcount in the quarter. We hired 14 new Search consultants to the Heidrick & Struggles family and we promoted 13 internally to Executive Search Principals.

General and Administrative expenses fell by almost 2% or \$0.6 million year over year. The biggest declines in G&A were related to lower intangible amortization due to the impairments taken last year in the second and fourth quarters. The other two big contributors to the decline related to lower bad debt expense and a decline in external client services. These savings were partially offset by increases in office occupancy costs and professional services fees.

We achieved a sizeable improvement in Operating Income and operating margin in the first quarter of 2018. Operating Income increased by \$6.5 million and our Operating Margin nearly doubled to 8.2%, from 4.7% margin in the first quarter of 2017. Further, the effective tax rate in the first quarter fell to 21.3%, largely as a result of discrete events from the 2018 first quarter, including the benefits of the Tax Act which benefited earnings by approximately \$0.05. Looking at our anticipated adjusted tax strategy, coupled with our internal forecasts for the mix of income, and applying the new tax rates, we believe our annual effective tax rate will be in the mid-30% range by year end excluding one-time items, a good reduction from an adjusted 48.9% tax rate in 2017.

All of this led to one of our strongest earning 1st quarters in the history of Heidrick & Struggles. Our net income increased to \$10.2 million from \$0.7 million in the first quarter of 2017. We delivered diluted earnings per share of \$0.53 in the first quarter of 2018, an increase of \$0.50 over the first quarter of 2017.

Let me wrap up by briefly discussing some of our Balance Sheet items. Reflecting the payment of bonuses in the first quarter, cash paid for the restructuring, as well as our acquisition in Denmark, you'll see we ended the first quarter of 2018 with cash and cash equivalents of \$73.4 million compared to \$68.3 million at the end of the 2017 first quarter. Looking at our cash and cash equivalents net of debt, we ended the 2018 first quarter with \$61.4 million compared to \$43.3 million at the end of last year's first quarter. Finally, of the \$73.4 million in cash and cash equivalents, \$65.8 million is readily available for operational use, while \$7.6 million has more limited availability due to currency, tax, and other factors that make it less efficient to use at this time.

Similar to last year's first quarter, we borrowed \$20 million for short term working capital under our Credit Agreement and subsequently repaid \$8 million in the 2018 first quarter. And while the \$12 million outstanding is categorized as long-term debt, because our Credit Agreement expires in 2020, we intend to repay this debt in the second quarter subject to market conditions.

Now let me give you the guidance for the second quarter. Our Executive Search backlog remains strong, when compared to other first quarters. Given our monthly Search confirmation trends and other factors on which we base our forecast, including a.) anticipated fees; b.) the expectations for our Heidrick Consulting assignments; c.) the number of consultants and their productivity; d.) the seasonality of the business; e.) the anticipated economic climate; and f.) foreign currency exchange rates, we are forecasting 2018 second quarter net revenue between \$160 million and \$170 million. This compares to \$152 million in net revenue in last year's second quarter.

With that, I'll turn the call back over to Krishnan who will give an update on our strategic priorities.

Krishnan Rajagopalan, President & Chief Executive Officer:

Thank you, Mark.

We clearly have momentum in the market and in our firm and we are delivering profitable growth. The market for Executive Search remains strong and we are seeing Heidrick Consulting start to bear fruit following the completion of the integration.

On our last call, I mentioned we have four priorities for 2018 across the enterprise. I'll briefly update you on each one.

The first priority is **GROWTH—increasing the scale and impact of both our business segments.**

In Search, we continue to strategically bring in new talent to the firm. In the first quarter, we added 27 consultants of which 13 were promotions to Principal consultants through our training and development programs. We also completed our acquisition in Denmark in early January and the integration and subsequent performance has met all of our expectations.

In Heidrick Consulting, we are scaling the business to increase our impact with clients building on the success of our platform, *Accelerating Performance*. We are investing in new consultant expertise, new service offerings, and scalable tools and methodologies. Understanding that this is a business with longer sales cycles and always starts slower in the first quarter, we are pleased with the growing pipeline of client engagements. Some of the services in high demand

are leadership development, team effectiveness, and organizational transformation. And with the integration complete, we returned to strategic hiring and added one consultant in the first quarter and have hired four so far in the second quarter.

I want to mention an exciting new initiative that we announced last week-- our Disruptive Innovators Team. We call it a "team" rather than a practice because their work cuts across all industries. We are beginning to work with innovative, emerging companies at the cusp of rapid growth and market disruption. These are companies with great ambitions, out to change the world with the power of their ideas. They have important needs as they outgrow their start-up stage with plans to quickly scale up to \$1 billion or more in revenue. We can help these developing organizations succeed in their go-to market strategies by filling important talent gaps, advising on transformation and change management, and accelerating their growth and development.

Our second priority in 2018 is to accelerate our **cross-enterprise collaboration**. When we bring the full power of our people and services from both Search and Consulting to our clients, we can achieve the greatest impact for them and drive profitable growth for the firm. This is our biggest initiative as an enterprise and is the major focus of the regional consultant conferences we are hosting in the second quarter.

Since the beginning of the year, we have conducted five intensive training sessions on our Heidrick Consulting offerings for our Search consultants and we have three more coming up over the next month. In these sessions, consultants from both lines of business work together to identify promising opportunities to expand the breadth of our engagements with clients who only know us for one type of service. A pipeline of opportunities is emerging that we are tracking and focused on.

Our third priority is on driving a **premium service experience** for our clients that will further distinguish Heidrick from its competitors.

As I mentioned earlier, we have rolled out our digital portal which imbeds our new proprietary assessment framework based on our Accelerating Performance methodology. Over two-thirds of all new engagements to date have adopted this methodology and the feedback that we have received from clients is outstanding. We view this as a competitive differentiator.

And, finally, our fourth priority is to further **improve our cost structure**. While pleased with the first quarter improvements in operating income, margin and EPS, we continue to make cost management part of our culture—and we will not lose this focus.

I want to again thank our employees around the globe for their hard work this quarter.

The two things that make this firm great are our people and our culture. I truly believe that we are creating new and unique opportunities to win in the market and our people are embracing this strategy. Everyone benefits – clients, employees, the firm and shareholders.

Now we would be happy to take your questions.