

2018 THIRD QUARTER CONFERENCE CALL SCRIPT

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Julie Creed, Vice President Investor Relations & Real Estate

Good afternoon everyone, and thank you for participating in Heidrick & Struggles 2018 third 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 third 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.

In our opening remarks or in our quarterly slides we refer to 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. Also in 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. As you have seen from our press release, we reported another great quarter—our second consecutive quarter of record net revenue, and our 13th sequential quarter with year-over-year revenue growth. Equally as important to us, we reported continued improvements in profitability. Some highlights to share:

- Quarterly net revenue was a record \$187.6 million, up 17% year over year and up 3% sequentially. Through the first nine months of the year, consolidated net revenue is up 17% as well.
- Executive Search revenue grew 19% in the quarter, driven by all three regions and all industry practices. Year to date, executive search revenue is up 20%.
- We achieved another company record for Executive Search productivity in the quarter at \$2.0 million dollars per consultant and on a trailing 12-month basis productivity is \$1.8 million per consultant.
- We further reduced G&A expenses, resulting in the lowest quarterly run rate, as a percentage of net revenue, since going public. On a trailing 12 month's basis, G&A expenses are now running at 20% of net revenue.
- The third quarter operating margin of 11.0% is the highest quarterly operating margin in the last 10 years.

- And finally, net income more than doubled to \$16.5 million, compared to last year's third quarter, and diluted earnings per share nearly doubled to 85 cents compared to 43 cents in last year's third quarter.

I could not be prouder of our employee's accomplishments. They have enabled us to report such strong results again this quarter and year to date.

We are living our values, especially to WIN AS ONE FIRM, and achieving our strategic, operational and financial goals. I am excited about our momentum and the potential of our company looking forward.

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

Mark Harris, Chief Financial Officer:

Thank you Krishnan and good afternoon to everyone on the call and thank you for joining us today. As Krishnan mentioned, third quarter net revenue was \$187.6 million, up \$27.8 million or 17% compared to last year's third quarter, and a new quarterly record for Heidrick & Struggles' net revenue. Although third quarter revenue can often be slower than the second quarter mainly attributable to summer vacations, our third quarter revenue grew 3% sequentially from the second quarter.

As you can see, revenue came in 4% higher than the high end of the guidance we gave at the end of the 2nd quarter. This was a function of all the Search revenue drivers exceeding expectations. Search confirmations increased 14% year over year. Average revenue per search increased 4.5%. Upticks increased 7%, although more aligned with our expectations. And productivity hit a new record of \$2.0 million per consultant compared to \$1.6 million in last year's third quarter. Every region achieved double digit growth and every industry practice group contributed to the revenue growth. All of this resulted in higher than expected Search revenue in the third quarter, up 19% or \$27.9 million.

Turning to Heidrick Consulting, revenue was \$15.5 million in the third quarter, essentially flat compared to the same quarter a year ago. Revenue would have increased 5.0% year

over year if not for this year's adoption of ASC 606 that impacted our revenue recognition methodology for enterprise license agreements. Enterprise license agreements are now recognized over five years compared to one year, thus reducing net revenue in the quarter by approximately \$900,000, or \$2.7 million year to date.

Salaries and Employee benefits increased by \$25.4 million, or 23%, from the third quarter 2017. \$9.3 million of the increase was related to fixed compensation, primarily related to higher costs for talent as we continue to invest in our future. The other \$16.1 million of the increase was related to variable compensation associated with the strong performance in Search, which unlocked more of our variable bonuses due to consultants hitting higher tiers earlier. Although salaries and employee benefits as a percentage of revenue increased in the 3rd quarter of this year, we don't expect the usual fourth quarter increase that we have seen in last several years, given the variable compensation tiers unlocked earlier.

For the fourth consecutive quarter, General and Administrative expenses declined year over year. G&A was \$33.1 million, down 11% or \$4.2 million. As a percentage of net revenue, G&A was 17.6%, the lowest since we've been publicly traded. There were savings realized in a number of areas, but the largest declines were in internal meetings and travel, a reduction in the use of external third-party consultants, lower IT communications costs, and lower bad debt expense.

Turning to Operating Income, we saw third quarter operating income increase to \$20.6 million with an operating margin of 11.0%, the highest in 10 years. Last quarter, we added a slide in the deck, SLIDE 10, which shows our trailing 12-month operating margin that removes the quarter-to-quarter variability. The numbers are adjusted for restructurings and impairments, but the slide shows the progress we are making to drive increasing profitability. This trend is very important to us and a key metric for evaluating our performance.

Finally, net income in the third quarter more than doubled to \$16.5 million and diluted earnings was \$0.85 per share with an effective tax rate of 29.0%. We believe our annual effective tax rate for 2018 will be in the low 30% range, a material reduction from an adjusted 48.9% tax rate in 2017. This was achieved through a combination of the US tax reform act, better tax planning overseas, and improved performance of the firm.

Now I'll turn to our Balance Sheet. We ended the third quarter with cash and cash equivalents of \$164.2 million compared to \$105.7 million at the end of the 2017 third quarter. Further, of the \$164 million in cash and cash equivalents, \$153 million (or 93%) is available for operating use, while \$11 million has more limited availability due to currency, tax, and other factors that make it less efficient to use at this time.

I am pleased to announce that we've executed a new Credit Agreement that takes advantage of favorable market conditions, thereby lowering our costs and extending our term. It was led by Bank of America Merrill Lynch and SunTrust Robinson Humphrey, supported further by HSBC Bank. This Agreement provides us with a senior unsecured revolving credit facility in an aggregate amount of \$175 million that expires in October 2023. This was increased to match the growth of our business today and expected growth in the future. The new credit facility provides us with total financial flexibility to continue to invest in our business and pursue our strategy. While today there is no imminent need for this facility's capacity, this gives Heidrick the financial security if and when we need it. I'd like to thank the banks who participated in this facility, a great achievement for Heidrick & Struggles.

Now let me give you the guidance for the fourth quarter. As a reminder, our guidance is based on 1.) the seasonality of the Search confirmation trends in the fourth quarter; 2.) the Search backlog at the end of third quarter, which has increased from the second quarter; 3.) our expectations for Heidrick Consulting assignments; 4.) anticipated fees; 5.) the number of consultants and their productivity; and 6.) the anticipated economic climate. We expect that 2018 fourth quarter net revenue will be in the range of \$170 million to \$180 million, which would be a record fourth quarter for Heidrick & Struggles.

In summary, we delivered another outstanding quarter and continued our pace of growth from the first half of the year. Our business continues to benefit from the overall market strength and we believe we are winning more than our fair share of it. We will continue to focus on strong execution, prudent investments, long-term planning and adding value to our clients. 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.

As you heard from Mark's financial review, when Heidrick & Struggles wins as one firm, we all win. That is what happened this quarter and has been happening throughout the year. I couldn't be more proud of what we accomplished as a team globally, regionally, and through our continued corporate initiatives.

Before I talk about where we are at with our 2018 initiatives, I'll address the elephant in the room, namely 'where are we in the economic cycle?' Today, I will tell you that we continue to see a robust market, and this is consistent across all of our regions. While there is volatility in the capital markets, we have not seen it translate into our business. Search confirmations are strong, even though we expect the usual seasonal trends around the holidays. I can't predict when we will see a slow-down, but we are not seeing that today. Are there certain offices or sub-practices that give us pause? Sure, there always are. But our revenue is better diversified by countries and by practices today. Those of you have followed us for many years know that this business can be volatile from quarter to quarter. This is why we present so many of our metrics on a trailing 12- month basis as one quarter's results do not make a trend. But the net is that we are on track to deliver a record year.

With that, let's turn to our focus on the priorities I have discussed throughout the year that helped drive our third quarter results and will help us achieve our goals for this year and beyond. Those four initiatives were to focus on:

1. Growth and increasing the scale and impact of both our business segments;

2. Cross-enterprise collaboration between Search and Consulting;
3. Delivering a premium experience to our clients; and
4. Improving our cost structure to deliver increasing profitability.

I am pleased with the progress we are making with all of these initiatives and you can see that they have positively impacted our performance. We have significantly grown our Search business this year and we did this with fewer, but more productive consultants and their teams. We continue to look opportunistically to hire new consultants, strategically driving expansion into markets and practices where we see good opportunities for growth. As you have seen, we didn't hire as aggressively at the consultant level as we have in past years. Instead, we placed greater emphasis on internal training and development programs for our consultant support teams. In January, we will announce our annual consultant promotions. I believe that this approach to growing our Search business goes hand-in-hand with all four initiatives.

In Heidrick Consulting, we continue to build the business that we launched at the beginning of the year and now, with the integration behind us, fully expect to gain traction over the next 12 months. We hired several Partners and Principals in the first half of 2018, but in the second half we will add more Principals than Partners. Principals aren't reflected in our consultant headcount, but are equally important to growing this business. We are pleased with the increase in cross-selling initiatives and the growing pipeline of client engagements, especially those that resulted from a collaboration with Search.

Let me give you an example of the kind of collaboration we are starting to see more of. A large multinational, energy client set very high goals. The client wanted to accelerate the team performance against a new strategy, increase employee engagement, build a high performance culture, advance the organizational effectiveness and integration of an acquisition and become an employer of choice. The introduction to Heidrick Consulting came from a search colleague and we competed against a few. We have now been working with this client's leadership team over the last six months on a team journey, coupled with deep leadership development for the executive team and high-potential leaders with a focus on laying the foundation of culture by activating the

values of the company. What makes these kind of assignments so impactful for Heidrick is that multiple consultant teams are working with the client on a number of leadership initiatives, generating higher fees over a longer period of time, and all with the common goal of accelerating the performance of the leaders, teams and organizations.

I also want to reiterate the importance of our initiative to delivering a premium experience to our clients. It's worth emphasizing the importance of this initiative because we believe it's differentiating us with clients and it's improving the efficiency of a search. The Heidrick Way – how we assess candidates, capture data, and communicate with our clients globally – has been the foundation of this premium service experience. As adoption of The Heidrick Way continues to increase, we are beginning to see real benefits. In standardizing our assessment methodology globally and providing a deeper assessment of candidates, we are amassing a formidable collection of leadership data points. By analyzing this data, we are can now provide our clients with aggregated, market-level talent insights – for example what Leadership Capabilities define a high-performing CFO -- as well as the search-specific information they need to make hiring decisions. Through our online client portal, Heidrick Connect, our clients are accessing up-to-date candidate information for searches across all regions, across all assignments at any time. Heidrick Connect is also allowing our search teams to operate more efficiently, through seamless capture and sharing of information and insights.

Building on these initiatives and our achievements this year, we are already looking out to 2021, a path we call Heidrick Rising. Our vision and our strategy have not changed-- to become the premier Leadership Advisory firm working on the most critical C-suite and Board leadership issues.

Our vision is to be the trusted advisor that combines distinctive, data-driven and technology-enabled **talent, leadership** and **culture solutions** to accelerate the performance of the world's most influential organizations.

Our strategy to achieve that vision is through the global delivery of a premium, diversified portfolio of advisory solutions that empower boards of directors and senior executives to leverage top talent and transform their organizations. To get there we will do the following:

- Broaden our capabilities and service offerings to clients
- Go to market as one firm with an integrated value proposition -- a distinctive suite of capabilities that maximize Leader, Team and Organizational performance
- Deliver superior leadership solutions through a unique, differentiated client experience, positioning the firm as a data-driven, premium, and technology-enabled advisor.

I want to again thank our employees around the globe for their hard work this year. We look forward to finishing the year strong and are excited about the future.

Now we would be happy to take your questions.