FOURTH QUARTER AND 2017 CONFERENCE CALL SCRIPT

February 26, 2018

Julie Creed, Vice President Investor Relations & Real Estate

Good afternoon everyone, and thank you for participating in Heidrick & Struggles fourth quarter and 2017 conference call. Joining me on today's call is our President and CEO, Krishnan Rajagopalan, our Chief Financial Officer, Rich Pehlke and Mark Harris, our Deputy Chief Financial Officer. During the call today, we will be referring to supporting slides that are available on the IR home page of our website at heidrick.com and we encourage you to follow along or print them.

Today we will be using the terms "Adjusted Operating Income, Adjusted Operating Margin, Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income and Adjusted Diluted Earnings per Share." 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 two different schedules 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. The slide numbers that we'll be referring to are shown in the bottom right hand corner of each slide. Our annual, consolidated results, which Krishnan will generally talk to, are on SLIDES 2 through 19.

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

Krishnan Rajagopalan, President & Chief Executive Officer:

Good afternoon and thank you for joining our call.

We have been quite busy since we last talked to you at the end of October. I am very proud of what our employees have accomplished and I'm excited about how we are positioned in 2018. I will summarize some of the highlights in 2017, the strategic actions we took, and what we've accomplished to date in 2018. Later, I'll discuss our strategy and initiatives for the balance of the year.

So let me start with 2017.

- Today we are pleased to report a fifth consecutive year of year-over-year revenue growth and the highest net revenue achieved in the company's 64-year history. Net revenue of $621 million, was up almost 7% or $39 million dollars.
- This growth was primarily driven by Executive Search, where revenue was up 9%. Following our promotion of a record 28 people to Principal consultants in January last year, we made steady improvements to productivity throughout the year, achieving $1.7 million revenue per consultant in the fourth quarter.
- Leadership Consulting grew approximately 6% in 2017. It was a transition year for this business. Once we decided last summer that we would combine Leadership Consulting with Culture Shaping, we made the decision to slow our hiring initiatives while we focused on key elements of the integration like product and service development & delivery, our go-to-market strategy, and the organizational structure. With this completed, we are moving forward at full speed.

- Although Culture Shaping net revenue declined compared to last year, both revenue and profitability improved throughout the year. Fourth quarter revenue increased sequentially for a second quarter through a continued focus on driving growth.
- We took several charges during the year which impacted our reported profitability, including non-cash impairment charges and a restructuring charge. We believe that these strategic actions, while difficult, better position us to move expense capital used for administrative support into market-facing investments in people and technology. We expect they will also help us deliver a sustainable improvement in operating margin.
- Excluding the unusual charges, adjusted operating income increased 17% compared to 2016 and the adjusted operating margin improved to 6.7%.
- And now on to 2018. Earlier this month we announced the market launch of Heidrick Consulting, combining our Leadership Consulting and Culture Shaping businesses into a single, integrated line of advisory services that complement our Search capabilities. We named Andrew LeSueur to lead Heidrick Consulting. Mike Marino, the former Managing Partner of Culture Shaping, retired. Colin Price, the former Managing Partner of Leadership Consulting, returns his focus to client service while further developing and deepening the firm's intellectual property and thought leadership.
- And we continue to add bench strength. In January we closed the acquisition of Amrop Denmark, adding six Search consultants to our Nordic region. And reflecting our well-established development and training program, we promoted 14 to Principals and 17 to Partners in Search. And we promoted three to Heidrick Consulting Partners as well.

Before I turn the call over to Rich to go over the financials, I'd like to take a minute to acknowledge that this is his last quarterly conference call at Heidrick & Struggles. Rich will be retiring after seven years as chief financial officer. I would like to thank him for his strong financial leadership. I'd also like to introduce you to Mark Harris, who has been working hand in hand with Rich and his team since the first of February in order to ensure a smooth transition. We are excited to have Mark on board, as he brings a wealth of global experience in guiding growing public and private enterprises. Most recently, Mark was CFO at Hercules Capital, a business development company, with responsibility for finance, accounting, operations, treasury, legal and investor relations. Hercules saw a significant increase in earnings per share and total shareholder return during his tenure. Please join me in wishing Rich the best in his upcoming retirement and welcoming Mark to the firm. Mark, would you want to say a few words before we turn the call over to Rich?

Mark Harris, Deputy Chief Financial Officer:

Absolutely. I couldn't be happier to join the Heidrick & Struggles family, a firm that I have revered during my professional career through my frequent experiences. It doesn't come as a surprise to me that Heidrick, who is a leader in advising clients on leadership talent and development, has provided me with such a smooth transition into a role as important as this one. It has been advantageous to be able to partner with Rich to leverage his vast knowledge and experiences of this business, which affords me the ability to get up to speed so quickly. Rich, thank you so much for your mentorship over the last month. In addition to Rich, I would also like to thank the financial and operational teams that I'll be leading, the other support teams that I have engaged with, and the leadership team who all have been amazing during this transitional process.

Finally, I am elated to be joining such a talented Executive team, coupled with the ability to work with such a distinguished Board of Directors, to create the next chapters of our firm.

Rich Pehlke, SVP & Financial Officer:

Thanks Mark. And let me add my welcome. It has been a pleasure working with you these past few weeks and I believe you are a great addition to Heidrick & Struggles. Thank you Krishnan for the kind words as well. Good afternoon everyone. Krishnan hit on the highlights of 2017, so I will discuss the fourth quarter results, which are covered on SLIDES 21 through 35. Revenue in the fourth quarter came in stronger than our guidance, primarily in Search, as a result of higher upticks, higher confirmations and the timing of those confirmations. Every region contributed and as did the four major industry practices. The increase in Search revenue resulted in higher bonus accruals for the quarter and for the year. This increase in salaries & employee benefits was partially offset by a decline in G&A in the fourth quarter, down $4 million, or 11%. As pre announced in early January, we took an $11.6 million non-cash impairment charge in the fourth quarter to write off the carrying value of the remaining goodwill and intangible assets related to our Leadership Consulting business. We also recorded $15.7 million for a strategic restructuring plan to reduce overall costs and improve efficiencies in our operations. Reflecting these charges, we reported an operating loss in the fourth quarter of $18.8 million. Referring to SLIDE 27, excluding the charges, adjusted operating income in the fourth quarter would have shown a year-over-year increase of 10% compared to the 2016 fourth quarter.

Moving down the income statement, we had additional charges in the quarter as a result of the enactment into law of the U.S. Tax Cuts and Jobs Act (TCJA) in December 2017. We recorded a $14.5 million charge related to the write-down of the value of our U.S. deferred tax assets as a result of the reduction in the U.S. corporate income tax rate from 35 percent to 21 percent, and another of $9.2 million to establish a valuation allowance for our foreign tax credit carry forwards because provisions in the new legislation will likely restrict their use going forward. I'll have more to say on our tax rate in a moment.

If you look at SLIDE 34, excluding the impairment and restructuring charges and the two tax-related charges, adjusted net income would have been $2.8 million in the fourth quarter and adjusted diluted earnings per share would have been $0.15. This compares to 2016 fourth quarter net income of $500,000 and diluted earnings per share of $0.03. Referring back to SLIDES 17 & 18, Adjusted net income for the full year 2017 would have been $20.9 million and adjusted diluted earnings per share would have been $1.09 with an effective tax rate of 48.9 percent.

Those of you who have followed the company know that our book effective tax rate has been volatile, principally due to the inconsistency of results in many of our foreign jurisdictions. Our cash tax rate has been more consistent, averaging closer to 40%.

For 2018, we are still reviewing the full effects of the other provisions in the Tax Reform legislation, but based on the current expected mix of income, we think our effective tax rate will decrease from the mid to high 40's to something in the range of 38% to 40%, primarily as a result of the U.S. corporate income tax rate reduction. From a cash perspective, this should translate to between $4.0 and $4.5 million of cash savings.

Now referring to SLIDE 36, Cash and cash equivalents at December 31 were $207.5 million compared to $165.0 million at December 31, 2016. The increase in cash balance compared to the end of 2016 reflects stronger operating cash flow, and fewer acquisition-related investments, offset by higher bonus payments paid in 2017.

The company's cash position builds throughout the year as we accrue for bonuses. Earlier this quarter we paid approximately $13 million in compensation related to the portion of consultant bonuses that are deferred each year. In March and April, we will pay out approximately $148 million in variable compensation related to 2017 performance. We also expect to pay approximately $13 million in the first quarter related mostly to severance to complete the restructuring.

Absent any potential acquisitions, we expect free cash flow to increase again in 2018 as a result of improved operating performance, lower expected capital expenditures, and a lower tax rate.

Now, before I turn to first quarter guidance, let me talk briefly about the new revenue recognition standard (*ASC No. 2014-09, Revenue from Contract with Customers*) that we are adopting effective January 1st, 2018. The primary area where the new standard will apply to Heidrick is "upticks". Upticks are fees that we receive for a completed search where the first year compensation paid to the hired candidate was higher than estimated in our original contract. In the past, we recognized uptick revenue at the time the amount was fixed and determinable, which generally coincided with the completion of the search. Under the new standard for revenue recognition, we will need to estimate the potential upticks for each search and recognize this revenue over the life of the search utilizing the same model we currently apply for the recognition of retainer revenue. This is expected to accelerate the recognition of search revenue related to upticks. We will continue to monitor and adapt our revenue recognition models over time but at this point we do not believe it will materially affect the run rate of the revenue each quarter. There will be more detailed information in our 10-K disclosure, but the guidance I will speak to next reflects the application of the new standard.

Now let me speak to the guidance for the first quarter and then Krishnan will talk more generally about the year. Our Executive Search backlog is shown on SLIDE 37 and is quite healthy. We still have a few days left in the month of February, but our search confirmation trends are shown on SLIDE 38. Other factors on which we base our forecast include our revenue recognition model, anticipated fees, the expectations for Consulting assignments, the number of consultants and their productivity, the seasonality of the business, the current economic climate and foreign exchange rates. We are forecasting a good 2018 first quarter with expected net revenue of between $150 million and $160 million. This compares to reported net revenue in the first quarter of 2017 which was $140.0 million.

With that, I'll turn the call back over to Krishnan.

Krishnan Rajagopalan, President & Chief Executive Officer:

Thank you, Rich.

We have started 2018 in a position of strength. We have momentum in the market and we are excited about the opportunity ahead of us.

Let me first mention how incredibly energized I was by the meetings and interactions we had at The World Economic Forum in Davos this year. They highlighted just how relevant our leadership advisory services are to the world's most influential businesses.

Never before has talent, leadership and culture meant so much to building and sustaining competitive advantage. Never has the pace of change and disruption been so intense. The market for executive search remains robust and the value of visionary leadership has never been greater. Now that we have launched Heidrick Consulting, we can better capitalize on the market for advisory services as well. There is significant opportunity for Heidrick, enabled by our brand, to take a bigger share of both markets.

We have also positioned our business for growth with strategic actions, including the restructuring at the end of 2017. We have reduced our cost structure and realigned costs from administrative to market-facing. We will invest much of the savings realized through the restructuring into people and technology.

We have four priorities for 2018 across the enterprise.

First, is **growth—increasing the scale and impact of both our business segments.**

In Executive Search, we intend to build on our momentum. We have invested significantly in this business in the last few years and are now positioned for more profitable growth and to take market share in every region. We will hire selectively focusing on the growth markets and healthy economies where we should have a larger presence.

For Heidrick Consulting, we will continue to scale the business to increase our impact with clients building on the success of our platform, *Accelerating Performance*. We will invest in new consultant expertise, new service offerings, and scalable tools and methodologies.

Our second focus for 2018 is on **cross-enterprise collaboration**. Our Search and Consulting teams will work closely together to provide our clients with an <u>integrated</u> suite of leadership advisory solutions. We are cross-training consultants in each of the businesses to look for opportunities to provide our clients with <u>more</u>, acting as trusted advisors. We are broadening our key account focus to bring the full power of Heidrick to our largest clients.

Our third focus is on driving a **premium service experience** for our clients. We have developed a comprehensive assessment framework using our proprietary IP derived from years of research. This framework connects directly to our foundational Accelerating Performance research, so we can demonstrate how our assessment of candidates correlates to performance. We now have 100% of our search teams trained on this new assessment methodology and are actively implementing with clients globally.

And we have begun rolling out a new client portal solution which allows us to digitally engage with the leading organizations we serve. We showcased this new capability to a number of client executives at Davos and their response was overwhelming. We believe this will further differentiate us competitively, and the standardization that it brings the process will also support margin improvement.

Finally, our fourth priority is to maintain a close focus on cost containment initiatives to further improve our cost structure. We are making cost control part of our culture and we will not lose this focus.

With our positive momentum and favorable market conditions, I am excited about the year ahead. You see that reflected in our first quarter guidance. With our four focus areas we will make further progress toward profitable growth. It is going to be an important year for this firm.

I want to again thank our employees around the firm for their hard work this past year, helping us achieve record revenue and significant gains on so many initiatives. I am truly excited about what we will accomplish as a team this year.

Now we would be happy to take your questions.

CLOSING

Let me close by offering a few summary thoughts

- 2017 was a year of significant change for our firm – leadership transitions, forming of a new team, creating a new consulting organization, strategic restructuring to name a few
- A big thank you to our outstanding team who stayed focused on clients and the market to deliver strong operating results
- We are re-inventing search and creating a new leadership advisory capability
- We continue to invest in people and technology
- We have an accountable mindset on the bottom line
- Our new team is very excited about 2018 and our future – you will see Heidrick & Struggles in the market
- Thank you