

2019 FIRST QUARTER CONFERENCE CALL SCRIPT

April 29, 2019

Julie Creed, Vice President Investor Relations & Real Estate

Good afternoon everyone, and thank you for participating in Heidrick & Struggles 2019 first quarter conference call. Joining me on today's call is our President and CEO, Krishnan Rajagopalan, and 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 view them for additional context, but we won't be referring to specific page numbers during our opening comments.

In our opening remarks and in our quarterly slides we refer to Adjusted EBITDA and Adjusted EBITDA Margin. These are non-GAAP financial measures that we believe provide additional insight into our underlying results. A reconciliation between GAAP and non-GAAP financial measures can be found in the last schedule 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:

Julie, thank you. Good afternoon everyone and thank you for joining our call. We are pleased to report another strong quarter of results, continuing our positive momentum and capitalizing on market conditions that remained robust. With many thanks to our employees around the world, almost every financial and operational metric improved in the first quarter compared to last year's first quarter. Let me just highlight a few:

- Net revenue increased 7%, or 10% on a constant currency basis
- Operating margin expanded 140 basis points to 9.6%
- Diluted Earnings per share improved to \$0.62, from \$0.53 in last year's first quarter

As many of you on this call know, over the last two years we have been on a journey to transform our business to become a trusted advisor, offering distinctive, data-driven and technology-enabled talent, leadership and culture solutions that will accelerate our clients' performance. Our people, our values and our purpose – to Help our Clients Change the World, One Leadership Team at a Time – are at the core of all that we do.

Reflecting our promotions, strategic hiring, and very low turnover, we ended the first quarter with 370 Search consultants and 67 Heidrick Consulting consultants, a combined increase of 5% compared to the end of last year's first quarter. We are very proud of our new class of diverse consultants promoted this year and will continue our internal training and professional development programs to support them, while also attracting new top talent to drive expansion into markets and practices where we see good opportunities for growth.

Executive Search continued to grow, driven by increases in the number of consultants, search confirmations, productivity, and average revenue per search. We remain focused on working at the top of organizations and our account strategy is working. And we continue to drive strong collaboration between our Executive Search and Heidrick Consulting businesses to ensure we are bringing the very best of Heidrick to our clients.

In Heidrick Consulting, we saw a small decline in net revenue on a constant currency basis, for which there were several contributing factors, none of which were material. I am excited by a number of positive indicators in this business and confident in our growth strategy. For example:

- Following the recent launch of our book, Goliath's Revenge, which talks about how established companies can thrive in the age of disruption, we had an increasing number of opportunities to introduce our clients to our digital acceleration offerings. We can advise them on how to attract the right types of leaders and talent in this new era of digital disruption, and how to build a culture of continuous innovation. The launch has led to a number of very productive conversations with our clients, as well as several confirmed projects, and a strong pipeline of consulting opportunities.
- Interest in our integrated offering, of Search and Leadership Consulting, continues to grow. Last year we doubled the consulting revenue generated through collaboration with Search and we continue to gain traction in the market for our integrated offering which just came together a year ago.
 - o Our hiring plan for Heidrick Consulting is on track including two new partners in Germany who will give us a much more meaningful

presence in that market, a new team that's starting to gain traction in Asia, and others.

We remain focused on our four key initiatives in order to build on our progress, gain market share, and increase shareholder value. These initiatives are to increase the scale and impact of our two businesses, increase cross-enterprise collaboration, drive a premium service experience for our clients, and maintain a focus on cost containment initiatives.

We are expanding our value proposition and strengthening our overall positioning as a trusted leadership advisor that can provide a wide range of executive talent and human capital solutions.

For example, as emerging technologies such as block chain, machine-learning and robotics continue to reshape the business landscape for all of our clients, we need to stay ahead of their talent needs. To do that, we have consultants working in several Specialty Practices including Artificial Intelligence and Data & Analytics, Cybersecurity, Digital Innovation, and the Internet of Things. This month, we launched a new specialty practice called Blockchain and Distributed Ledger Technology to help companies find the right talent for exploring the impacts and applications of these types of technologies, to transfer assets, or conduct transactions across the internet and peer-to-peer networks.

In addition, some of you may recall that last year we introduced our Disruptive Innovators Team. These consultants advise early stage companies, on the cusp of rapid growth, about filling key leadership and talent gaps to help them accelerate their development. This team operates across all of our practices and regions, in both Search and Heidrick Consulting, and I am pleased to report that we are now actively working with some very prominent "unicorns" in each of our major geographies.

I am especially looking forward to our global consultants' meeting next month. It is an important event that brings us together to align as ONE FIRM and enables cross-enterprise collaboration between Search and Consulting. The meeting is a great opportunity to share the latest developments related to our own data-driven, tech-

enabled solutions and dive deeper into how we can better serve our clients. We will use our time together to explore what is next on the horizon for our industry, how we can accelerate the pace of innovation within our firm and how we can fuel our future opportunities for growth.

Thank you again to our teams around the world on a great quarter and great start to 2019. Now let me turn the call over to Mark to elaborate on the quarter.

Mark Harris, Chief Financial Officer:

Thank you Krishnan. Good afternoon to everyone on the call today, we thank you for joining us.

As Krishnan mentioned earlier, we achieved net revenue of \$171.6 million, another historical achievement for a first quarter here at Heidrick & Struggles. This was an increase of 7.2% year over year or an increase of 10% on a constant currency basis, and in line with the guidance we provided at the end of February.

The year-over-year growth in the first quarter was driven by Executive Search, where we saw an increase in revenue of \$12.5 million, or 8.6%, to \$158.3 million. Almost without exception, the first quarter is our seasonally slowest quarter and we are very pleased with how we started 2019. The Americas region had strong growth of 15%, which wasn't surprising given the first quarter GDP growth reported on Friday. Asia Pacific grew 7%, but on a constant currency basis it actually grew 12%, with strong performance from our Australia, Japan, India, Middle East and Singapore offices. Europe declined 6%, however, on a constant currency basis, Europe actually grew 1%. While Brexit remains a challenge and has impacted our Financial Services practice in the UK, the strength of our other European operations – such as Belgium, the Netherlands, Switzerland and Spain -- allowed us to maintain confirmations and revenue comparable to the first quarter of 2018. As you can see, the revenue decline in Europe was mainly attributable to currency devaluation. In summary, on a constant currency basis, search revenue increased by 11%.

Salaries and Employee benefits were up by \$9.4 million, or 8.4%, from 2018's first quarter and in line with our revenue growth. \$4.5 million of the increase was related to fixed compensation, primarily due to talent acquisitions and retentions, as well as inflation adjustments we made in the first quarter. The other \$4.9 million was related to variable compensation associated with the growth in Search revenue.

For the sixth consecutive quarter, General and Administrative expenses improved year-over-year. G&A was \$34.4 million, down 3.3% or approximately \$1.2 million. There were savings in a number of areas, but the biggest improvement was in professional service expenses. In lieu of last year's regional and practice meetings, we will have our Global Consultants' meeting in the second quarter of 2019. We expect incremental G&A expense of approximately \$500,000 pertaining to this meeting.

I am very pleased to report that our operating income in the first quarter of 2019 increased 25% to \$16.4 million. Further, operating margin expanded to 9.6%, from 8.2% in last year's first quarter. These improvements in profitability were driven by a combination of revenue growth and cost containment efforts, as well as improvements in productivity, some of which we believe is the direct result of the increasing adoption rate of our technology platforms.

Finally, we achieved net income of \$12.1 million in the first quarter of 2019, an increase of 19% compared to last year's net income of \$10.2 million. Diluted earnings per share also improved to \$0.62 compared to \$0.53 we had last year. We are very pleased with the bottom line gains, especially given the effective tax rate in the first quarter was 35.9%. Last year's first quarter tax rate was 21.3%, but had the benefit of several discrete items in that quarter. For the full year 2019, we are expecting an effective tax rate in the low-30% range.

Now I'll turn to our Balance Sheet. First, you'll see three new line items related to our adoption of ASC 842, the new accounting standard impacting the treatment of our leases. Additional information about our adoption is provided in our 10Q, footnote 6. As you will see, there is no impact to cash & cash equivalents, the income statement or shareholders' equity. Second, at the end of the first quarter, we nearly doubled our cash and cash equivalents to \$114.4 million compared to \$61.4 million net cash at the end of last year's first quarter, a great start to 2019. As a result of our strong operating cash flows, we did not need to borrow to fund our working capital needs as we had

done the past two years. Finally, I am also pleased to announce that we will be paying a \$0.15 per share cash dividend in May. As a reminder, last quarter we increased our quarterly cash dividend to \$0.15 cents per share, from \$0.13 cents.

Looking at the second quarter, we expect that net revenue will be in the range of \$172 million to \$182 million, compared to \$183.1 million in last year's second quarter. It's important to remind you that last year's second quarter net revenue was a record, up 20% year over year. The midpoint of our guidance in last year's second quarter was \$165 million and we beat that by \$18 million, mainly driven by an unusually high amount of unforeseen upticks. We have not assumed that level of upticks in our guidance for this year's second quarter and expect to meet our guidance with our core business.

In summary, we delivered another outstanding quarter and have every intention of continuing our momentum. We will maintain our discipline with regard to balancing investments for future growth, and as always, continue to be cost conscious. With that we would be happy to take your questions.

Operator, we are ready to take questions now.
