FOURTH QUARTER AND 2018 CONFERENCE CALL SCRIPT

February 25, 2019

Julie Creed, Vice President Investor Relations & Real Estate

Good afternoon everyone, and thank you for participating in Heidrick & Struggles fourth quarter and 2018 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 fourth 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. Specific to 2017 results, we'll also speak to Adjusted Operating Income, Adjusted Operating Margin, Adjusted Net Income and Adjusted EPS. 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 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. On behalf of our employees around the world, I am very pleased to report Heidrick & Struggles 2018 fourth quarter and annual results. It was a year in which we achieved a number of company records; we were front and center on the most relevant leadership issues including, succession planning, culture, diversity and inclusion and data privacy; and we made great progress on our transformational journey to enhance our data-driven, tech-enabled solutions and service experience. First, let me share some of the annual financial highlights of 2018.

- Net revenue was a company record in our 65-year history-- $716 million, up 15% compared to last year. This was the sixth year in a row of year-over-year revenue growth.
- This growth was driven by our Executive Search business, for which net revenue of $653 million increased 18% compared to 2017.
  - Every region and every practice group contribute to our growth in Executive Search.
  - More than 5,000 confirmed searches, productivity of nearly $1.9 million per consultant, and average revenue per search of more than $127,000 were also key to revenue growth.
- 2018 was a transformational year for Heidrick Consulting, where we integrated our former Leadership Consulting and Culture Shaping businesses. We are now going to our

clients with a single, integrated line of advisory services, and are focused on growth. We are seeing a meaningful increase in the number of integrated, search and consulting assignments and this is reflected in a higher quality of revenue.
- Turning back to our consolidated results, we reduced General and Administrative expenses to under 20% of net revenue, increased operating income to $68.9 million, achieved operating margin of 9.6% and delivered diluted earnings per share of $2.52 – all of these the best in 11 years.
- Finally, reflecting our strong cash position and confidence in the future, we are increasing our quarterly cash dividend to $0.15 cents per share, an increase of more than 15%.

Key to having achieved these financial results was our steadfast focus on the four priorities for our business that we communicated last year—to increase the scale and impact of our two businesses, to increase cross-enterprise collaboration, to drive a premium, data-driven, tech-enabled service experience for our clients and to maintain a focus on streamlining our cost structure. Some examples of these initiatives were:

- We continued to increase the collaboration between our Executive Search and Heidrick Consulting businesses, driving new business opportunities through our Strategic Accounts program, and numerous cross training sessions.
- We established a larger, broader presence in the Nordic region through an acquisition in Denmark and we expanded our footprint with a new office in Dublin, Ireland.
- We trained more than 900 employees on *The Heidrick Way* --our platform for consistently and more effectively assessing candidates, capturing data, and communicating with our Search clients globally.
- More than 4,000 searches were executed via *Heidrick Connect,* our proprietary Client Portal for sharing and delivering our data and insights to clients, and adoption continues to increase.
- We were the first executive search firm to publicly commit to diversity in our board of director searches, recognizing that diverse leadership is a business imperative.
- We launched two new practice areas. The first, the Disruptive Innovators Team, supports fast growing, emerging companies with their leadership strategies and talent needs. The second practice, Artificial Intelligence, is helping our clients identify executives who can drive enterprise-wide transformation through AI and machine learning solutions.

We are living our values, especially to WIN AS ONE FIRM, and achieving our strategic, operational and financial goals. I am excited about our progress and our future potential.

I'm going to turn the call over to Mark to further discuss the financial results, and then I'll finish by discussing some of our key growth initiatives in 2019.

Mark Harris, Chief Financial Officer:

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

Krishnan hit on the annual highlights of 2018, so I will focus on the fourth quarter results. Revenue in the fourth quarter was $185.3 million, an increase of almost $16.0 million or 9.4% year over year. This was higher than our guidance as a result of strong uptick revenue in Executive Search, which is difficult to forecast due to the variability of the market. Irrespective, Executive Search finished the quarter up $19.6 million or 13.2% year over year, driven by growth in the Americas region of 20.2%, as a result of higher confirmations, average retainers and upticks. Without the impact of the strong performance of upticks, we would have been at the high end of our guidance.

Heidrick Consulting revenue declined $3.7 million, or 18.0%, in the fourth quarter; however, $1.1 million of that decline was related to the adoption of ASC 606, which impacted our revenue recognition methodology for enterprise license agreements. Enterprise license agreements are now recognized over five years, compared to one year in previous years. However, when looking at this annually, Heidrick Consulting was impacted by ASC 606 by $3.8 million, thus revenue annually, on a pro-forma basis, was only marginally down 4% year-on-year. Given we have discussed numerous times that 2018 was going to be a pivot year for this business, we were pleased with their performance in 2018 and look forward to their growth strategy in 2019.

Salaries and Employee benefits increased by $8.3 million, or 6.6%, from the 2017's fourth quarter. $7.4 million of the increase was related to fixed compensation, primarily related to higher costs for consultant talent as we continue to invest in our future. The other $0.9 million of the increase was related to variable compensation associated with the strong performance in Search.

For the fifth consecutive quarter, General and Administrative expenses declined year over year. G&A was $35.3 million, down 1.6% or approximately $0.6 million. Much of this decline was a result of lowering our external service costs, travel & entertainment costs and office occupancy costs. G&A as a percentage of revenue fell to 19.0% in the fourth quarter of 2018, from the

21.2% in the same quarter last year. It's worth noting that we will have a global consultants' meeting in the second quarter of 2019 in lieu of last year's regional meetings and practice meetings. As such, we only expect incremental G&A expense of $0.5 million for the year pertaining to these meetings.

Operating income in the fourth quarter of 2018 was $16.7 million and operating margin was 9.0%, which improved significantly from last year's adjusted fourth quarter 2017 operating income of $8.5 million and operating margin of 5.0%. We are very proud of this achievement, enabled in part through the increasing adoption of our technology platforms.

Net income in the 2018 fourth quarter of $11.2 million and diluted earnings per share of $0.58 were also far improved to last year's adjusted fourth quarter net income of $2.8 and diluted earnings per share of $0.15. I know I committed to just focus on the fourth quarter, but I really want to highlight what our shareholders achieved this year. Net income for the full year was $49.3 million and diluted earnings per share of $2.52 were the highest in 11 years. This growth was nearly 2 ½ times over last year's adjusted earnings per share of $1.09 and demonstrates what we can achieve.

Now I'll turn to our Balance Sheet. We ended the fourth quarter and 2018 with cash and cash equivalents of $279.9 million compared to $207.5 million at the end of 2017, an increase of 35%. The increase in cash balance compared to the end of 2017 reflects stronger operating cash flow and lower capital expenditures, partially offset by higher bonus payments paid in 2018, payments for severance related to the late 2017 restructuring, and our investment in Denmark. As most of you know, our cash position builds throughout the year as we accrue for bonuses. Earlier this quarter we paid approximately $14 million in compensation related to the portion of consultant bonuses that are deferred each year, and in March and April of this year, we will pay out approximately $202 million in variable compensation related to last year's performance. As a result of strong operating cash flow, we don't anticipate using any leverage in the first quarter pertaining to our working capital needs, different than the past two years.

We would expect free cash flow to increase in 2019 assuming improved operating performance, lower capital expenditures, and absent acquisitions. Based on the above, and our commitment to our shareholders, Heidrick & Struggles capital allocation strategy will always be evolving, thus we will always balance our ability to adequately invest for future growth and return excess cash to our shareholders. This strategy has led us to increase our dividend by 15% to $0.15 this quarter, from our long time run rate of $0.13 per quarter.

Now let me provide our outlook for the first quarter. As a reminder, our guidance is based on 1.) the seasonality of Search confirmation trends in the fourth and first quarters; 2.) the Search backlog at the end of fourth quarter; 3.) our expectations for Heidrick Consulting assignments; 4.) anticipated confirmations and fees; and 5.) the economic climate. With this, we expect that 2019 first quarter net revenue will be in the range of $165 million to $175 million, compared to $160.1 million in last year's first quarter.

In summary, we delivered another outstanding quarter and finished the year with many historical achievements. We intend to maintain the same discipline we showed in 2018 with regard to balancing investments for future growth, continued focus on cost reduction initiatives and delivering shareholder value. 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 have delivered another great quarter of results and we continue to see a robust market across all of our regions. We experienced the usual seasonal trends around the holidays with regard to search confirmations, but as you can see in Slide 16, January was the strongest it has been in four years. We are continuing to see a solid market.

Our four priorities served us well in 2018 and they will continue to drive our initiatives in 2019. They 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 to further improve our cost structure.

We will continue to opportunistically hire new consultants and strategically drive expansion into markets and practices where we see good opportunities for growth. Simultaneously, we will continue our focus on internal training and development programs for our consultant support teams. Effective January 1, we promoted 12 women and 12 men, in total 24 individuals, to

Principal Consultants as part of our annual consultant promotions process, almost double the number we promoted last year, and a huge testament to our internal development programs. We will announce our Partner promotions in March. What a fantastic start to 2019!

In Heidrick Consulting, we continue to build the business that we launched last year and expect momentum to continue. Our backlog going into 2019 is higher than it was going into 2018. As a result of the training and development initiatives in 2018, we have a much stronger collaborative relationship between Search and Consulting and are bringing greater value to our clients seeking holistic leadership advisory services. Our 2018 hires are starting to hit their stride and we have increased our hiring plan for partners and principals in 2019. Recent investments in thought leadership and solutions in the areas of Digital Acceleration, Diversity and Inclusion, and Organizational Simplicity are in strong demand in the market.

Earlier this month, we launched a new book, *Goliath's Revenge*, which looks at how established companies are battling back in the age of disruption and how they can attract the right talent and build a culture of continuous innovation. And our digital acceleration offerings, which are aligned with our Accelerating Performance framework, are helping business leaders understand and manage the leadership, talent, culture and human capital implications that come with ongoing digital disruption. These are just a few of the drivers of the growth we are aiming for in 2019.

To increase the impact of both of our businesses we need to continuously expand our value proposition and strengthen our overall positioning as a trusted leadership advisor who can provide a wide range of executive talent and human capital solutions.

For example, on January 15th we announced an exclusive agreement with a premier company called Business Talent Group to offer high-impact, on-demand executive talent solutions. (BTG is absolutely the best at what they do.) This is yet another way we can help our clients and the candidates we place be more successful, by providing seamless access to BTG's high-end, on-demand talent solutions that can help our clients and placements fulfill their most pressing business needs.

I am highly energized about our priority to drive a premium service experience for our clients – one that differentiates us from our competitors. This focus has led us on an exciting transformation journey at Heidrick. Last year we finished rolling out new data-driven, tech-enabled assessment tools and platforms to better serve our clients and help them accelerate their performance. The response, internally and externally, has been incredibly positive. In 2019 you will see us capitalize on our momentum, because the results are getting better and more valuable with time. It's improving the efficiency of a search and providing us with a deeper assessment of candidates, allowing us to capture a formidable collection of leadership data points.

Again, I want to thank our employees around the globe for their hard work this year. I would also like to thank our Board of Directors for their continued support and guidance, and welcome Stacey Rauch, who joined the Board at the end of January. We look forward to continuing our momentum in 2019 and are excited about the future.

Now we would be happy to take your questions.

Closing remarks following Q&A: