

2019 SECOND QUARTER CONFERENCE CALL SCRIPT

July 29, 2019

Julie Creed, Vice President Investor Relations & Real Estate

Good afternoon everyone, and thank you for participating in Heidrick & Struggles 2019 second 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 second 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 materials 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 2 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 our second quarter and first half of the year results. As evidenced by the numbers, we are still seeing solid demand at the top and we are hitting on all cylinders to win more market share. There are a few markets experiencing economic uncertainty and slowdown, but other markets are outperforming. So the mix of our revenue is different, but when we look at our results overall for the first six months, we are slightly ahead of where we were last year at this time. Given 2018 was a record revenue year, we consider our 2019 performance to date to be positive. Importantly, with all the changes that we have made to our operating model over the last two years, we are running the business more efficiently. We are delivering improving profitability, and higher net income and EPS to shareholders. Let me share a few highlights:

- Consolidated net revenue of \$173.1 million in the second quarter increased 1% compared to the first quarter, and was down 5% year over year, or 4% in constant currency -- about as we expected given that last year's second quarter included an unusually high number of search revenue upticks.
- Even so, the operating margin expanded to 10.6%, compared to 10.1% in last year's second quarter.

- Net income increased 25% to \$14.3 million, and diluted earnings per share improved 24% to \$0.73 per share, from \$0.59 per share in last year's second quarter.
- It's also worth noting that our year-to-date consultant turnover, globally, is quite possibly the lowest in our history, at 5%, allowing us to maintain high Search consultant productivity at \$1.7 million per consultant. And remember that in January, we promoted one of our largest classes to date --24 individuals to Principals

Our data-driven and technology-enabled talent, leadership and culture solutions are increasingly being embraced by our employees and are becoming fully embedded across our business. This approach is continuing to resonate more strongly with our clients. Some examples:

- We have now executed over 7,000 searches, through our tech-enabled process that we refer to as the Heidrick Way. As part of this process, we are leveraging our proprietary Infinity Framework assessment methodology to gather consistent data.
- Since introducing our clients to the book Goliath's Revenge, and our digital acceleration offerings earlier this year, more than 10 of our clients have signed up to work with us on their digital transformation and innovation initiatives by focusing on their culture and human capital.
- Last year, approximately 10% of our consulting revenue was driven thru search introductions and in the first half of this year that has climbed to around 20%.
- We are continuing to expand our work at the top, not only by placing CEO candidates with our clients, but also by working with those CEOs to accelerate their performance, starting from day one. We have several such landmark projects underway.

Last year, we launched Heidrick Consulting and began going to clients with a single, integrated line of advisory services. We've made progress, but this business isn't yet where we want it to be. Last year we focused on the consulting integration and overall margin improvements. This year, our attention is fully focused on growing the consulting business. Our growth will be driven by increasing collaboration within the firm to bring the full power of Heidrick's service offering to our clients globally, and equally important, by increasing the depth and breadth of our advisory services and human capital solutions through strategic hiring, external partnerships, and acquisitions. We still have a long-ways to go, and we must accelerate on this dimension.

As I said earlier, where we are focused in Search-- at the top of organizations -- we continue to see favorable market demand. June confirmations were very good and July is tracking well too. In aggregate, we aren't seeing a slowdown, but we aren't seeing acceleration either. In this type

of a market it is all about operating efficiently and winning market share. And we believe we are winning more than our fair share of the Search business with our 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 grow our business and achieve our vision we continue to focus on several initiatives:

- Broadening our capabilities and service offerings to clients
- Going to market as one firm with an integrated value proposition -- a distinctive suite of capabilities that maximize Leader, Team and Organizational performance
- And delivering superior leadership solutions through a unique, differentiated client experience.

Thank you again to our teams around the world for their hard work and a solid start to the year. Now let me turn the call over to Mark to elaborate on the quarter.

Mark Harris, Chief Financial Officer:

Thank you Krishnan. Good afternoon everyone and thank you for joining our call today.

As Krishnan mentioned, our consolidated second quarter net revenue of \$173.1 million was down compared to last year's second quarter, but not unexpected given the unusual number of Search upticks last year. Our net revenue, excluding upticks in both quarters, would have been similar on a pro-forma basis, to give that some context.

Executive Search revenue was about even with the first quarter of 2019, but declined about 5% year over year due to last year's high uptick revenue. Reflecting on our year-to-date performance, given the quarter-to-quarter variability we can see in our markets, search revenue is still ahead of the same period in 2018. In the second quarter, on a constant currency basis, the Americas declined 2.0% and Europe just 1.0%. However, Asia Pacific declined 9.4% with several factors at play including consultant turnover, consultant mix, and generally tough comps compared to last year.

Heidrick Consulting revenue, increased 10% sequentially, although declined 10% year over year on a constant currency basis. For the first six months of the year, consulting revenue was off

7.4% on a constant currency basis, compared to 2018. Factors that contributed to the year-over-year results included: lower productivity because consultants who left after the integration last year were replaced by new consultants who aren't yet fully up to speed. And revenue we had planned on from several client engagements that was pushed into the third and fourth quarters. However, we continue to see positive trends in this business. As Krishnan mentioned, more revenue is being driven by the Search consultants. We are especially excited about several high-profile assignments that were won in conjunction with Search. Heidrick Consulting is proposing on larger and more complex, multi-layered projects, which are highly strategic and impactful for our clients, but also take longer to close and deliver. We believe this strategy will be accretive for Heidrick long-term.

Turning to salaries and benefits, this was lower by \$7.1 million or 6% compared to last year's second quarter. We saw an increase in fixed compensation of \$3.0 million, with much of this being driven by higher stock compensation expense, and other benefit expenses, such as retirement and deferred compensation expense. This increase in fixed compensation was offset by a \$10 million decline in variable compensation expense, mostly related to lower revenue in the quarter.

For the seventh consecutive quarter, General and Administrative expenses were down year over year to \$34.2 million, a decrease of 7.5% or approximately \$2.8 million, compared to last year's second quarter. There were savings in a number of areas, but the biggest improvement was in the continued focus around reducing professional services.

All of these improvements led to operating income in the second quarter of \$18.4 million, essentially flat with the prior year despite lower revenue. Through active management of our operating expenses, our operating margin expanded to 10.6%, from 10.1% in last year's second quarter and on a trailing 12-month basis, our operating margin is at 10% for the first time since the third quarter of 2008, or 11 years ago.

Finally, we are very pleased to report our achievement in net income of \$14.3 million in the second quarter of 2019, an increase of 24.6%. This drove our diluted earnings per share to \$0.73 compared to \$0.59 last year. While much of this increase was driven by our operating performance, our tax team has done a very good job in managing our tax structure in order to

help us achieve an effective tax rate of 26.7% in the second quarter. For the full year 2019, we are still expecting an effective tax rate in the low 30% range.

Now I'll turn to our Balance Sheet. At the end of the second quarter, our cash and marketable securities increased to \$144.0 million compared to \$85.8 million at the end of last year's second quarter. Cash provided by operating activities was \$33.4 million compared to \$30.4 million in last year's second quarter, an increase of 10%.

Turning to the third quarter of 2019, we expect that net revenue will be in the range of \$175 million to \$185 million, compared to the quarterly record revenue of \$187.6 million achieved in last year's third quarter. June confirmations were very good and July is tracking well too. Our guidance is further based on the Search backlog at the end of second quarter, which increased from the first quarter; the typical seasonality of the Search confirmation trends in the third quarter; our expectations for Heidrick Consulting assignments; anticipated fees; the number of consultants and their productivity; and the anticipated economic climate.

In summary, we are pleased with our second quarter performance, especially our management of the business that delivered tangible improvements to the bottom line. We are on a similar track to 2018, a record year, with an even better bottom line and we look forward to finding new opportunities to build our brand further. With that we would be happy to take your questions.
