

September 6, 2017



# Korn Ferry International Announces First Quarter Fiscal 2018 Results of Operations

LOS ANGELES, Sep. 6, 2017 /PRNewswire/ --

## Highlights

- Korn Ferry reports fee revenue of \$401.3 million in Q1 FY'18, a 6.8% increase from Q1 FY'17, driven by organic growth in all lines of business.
- Operating income was \$40.7 million in Q1 FY'18 with an operating margin of 10.2%. Adjusted EBITDA was \$59.4 million with Adjusted EBITDA margin of 14.8%.
- Q1 FY'18 diluted earnings per share was \$0.51 and adjusted diluted earnings per share was \$0.55.
- The Company continued to return capital to stockholders during the quarter, paying \$5.8 million in dividends and repurchasing \$4.0 million worth of its outstanding shares. As of September 5<sup>th</sup>, the cumulative share repurchases since the program started in October 2016 amount to \$57.4 million, which equates to almost 2.0 million shares.
- The Company declared a quarterly dividend of \$0.10 per share on September 5, 2017 payable on October 13, 2017 to stockholders of record on September 27, 2017.

Korn/Ferry International (NYSE: KFY), the preeminent global people and organizational advisory firm, today announced first quarter fee revenue of \$401.3 million. First quarter diluted earnings per share was \$0.51 and adjusted diluted earnings per share was \$0.55. Adjusted diluted earnings per share for the first quarter excluded \$2.1 million, or \$0.04 per share, of integration/acquisition costs and a small amount of real estate related restructuring charges, both net of related taxes.

"I am pleased to report fee revenue of \$401.3 million, up almost 7% year over year (almost 8% on a constant currency basis), for our recently completed first quarter. Profits were also strong, with diluted earnings per share and adjusted diluted earnings per share of \$0.51 and \$0.55 and Adjusted EBITDA of approximately \$59 million. All three of our business lines experienced growth," said Gary D. Burnison, CEO of Korn Ferry. "We are making substantial investments in our operations and offering progressive solutions for the talent and organizational challenges faced by our clients. Korn Ferry is not only the world's leading executive search firm – the scale and scope of our broader offerings account for more than half of our revenue. Our company stands at the intersection of talent and strategy and more than ever we're helping our clients drive performance through their people."

## Selected Financial Results

(dollars in millions, except per share amounts)<sup>(a)</sup>

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First Quarter

|                                       | FY'18    | FY'17    |
|---------------------------------------|----------|----------|
| Fee revenue                           | \$ 401.3 | \$ 375.6 |
| Total revenue                         | \$ 414.9 | \$ 392.9 |
| Operating income                      | \$ 40.7  | \$ 4.5   |
| Operating margin                      | 10.2%    | 1.2%     |
| Net income attributable to Korn Ferry | \$ 29.0  | \$ 3.2   |
| Basic earnings per share              | \$ 0.52  | \$ 0.06  |
| Diluted earnings per share            | \$ 0.51  | \$ 0.06  |

**EBITDA Results (b):**

|               | First Quarter |         |
|---------------|---------------|---------|
|               | FY'18         | FY'17   |
| EBITDA        | \$ 56.5       | \$ 20.3 |
| EBITDA margin | 14.1%         | 5.4%    |

**Adjusted Results (c):**

|                                                | First Quarter |          |
|------------------------------------------------|---------------|----------|
|                                                | FY'18         | FY'17    |
| Adjusted fee revenue                           | \$ 401.3      | \$ 379.2 |
| Adjusted EBITDA (b)                            | \$ 59.4       | \$ 56.4  |
| Adjusted EBITDA margin (b)                     | 14.8%         | 14.9%    |
| Adjusted net income attributable to Korn Ferry | \$ 31.2       | \$ 29.5  |
| Adjusted basic earnings per share              | \$ 0.55       | \$ 0.52  |
| Adjusted diluted earnings per share            | \$ 0.55       | \$ 0.52  |

- (a) Numbers may not total due to rounding.
- (b) EBITDA refers to earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA further adjusts EBITDA to exclude restructuring charges, net and integration/acquisition costs and includes the deferred revenue adjustment related to the acquisition of HG (Luxembourg) S.à.r.l ("Legacy Hay"). EBITDA, EBITDA margin, Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures (see attached reconciliations).
- (c) Adjusted results are non-GAAP financial measures that adjust for the following, as applicable (see attached reconciliations):

|                                                                   | First Quarter |         |
|-------------------------------------------------------------------|---------------|---------|
|                                                                   | FY'18         | FY'17   |
| Restructuring charges, net                                        | \$ 0.3        | \$ 24.5 |
| Integration/acquisition costs                                     | \$ 2.6        | \$ 8.0  |
| Deferred revenue adjustment related to the Legacy Hay acquisition | \$ —          | \$ 3.5  |
| Write-off of debt issuance costs                                  | \$ —          | \$ 1.0  |

Fee revenue was \$401.3 million in Q1 FY'18, an increase of 6.8% (7.7% increase on a constant currency basis) compared to Q1 FY'17. The increase in fee revenue was due to organic growth in all lines of business.

Operating margin was 10.2% in Q1 FY'18 compared to 1.2% in the year-ago quarter. The increase in operating margin was primarily due to an increase in fee revenues of \$25.7 million and a decrease in restructuring charges of \$24.2 million, offset by an increase in compensation expenses of \$11.0 million due to a 6.1% increase in headcount.

Adjusted EBITDA margin was 14.8%, compared to 14.9% in the year-ago quarter.

## Results by Segment

### Selected Executive Search Data

(dollars in millions) <sup>(a)</sup>

|                               | First Quarter |          |
|-------------------------------|---------------|----------|
|                               | FY'18         | FY'17    |
| Fee revenue                   | \$ 161.2      | \$ 146.4 |
| Total revenue                 | \$ 165.8      | \$ 151.5 |
| Operating income              | \$ 32.8       | \$ 26.9  |
| Operating margin              | 20.4%         | 18.4%    |
| Ending number of consultants  | 532           | 488      |
| Average number of consultants | 525           | 488      |
| Engagements billed            | 3,615         | 3,226    |
| New engagements (b)           | 1,659         | 1,446    |

|                            |               |         |
|----------------------------|---------------|---------|
| <b>EBITDA Results (c):</b> | First Quarter |         |
|                            | FY'18         | FY'17   |
| EBITDA                     | \$ 35.1       | \$ 28.9 |
| EBITDA margin              | 21.8%         | 19.7%   |

|                              |               |         |
|------------------------------|---------------|---------|
| <b>Adjusted Results (d):</b> | First Quarter |         |
|                              | FY'18         | FY'17   |
| Adjusted EBITDA (c)          | \$ 35.2       | \$ 31.7 |
| Adjusted EBITDA margin (c)   | 21.8%         | 21.6%   |

(a) Numbers may not total due to rounding.

(b) Represents new engagements opened in the respective period.

(c) EBITDA, EBITDA margin, Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures (see attached reconciliations).

(d) Adjusted results are non-GAAP financial measures that exclude the following (see attached reconciliations):

|                            | First Quarter |        |
|----------------------------|---------------|--------|
|                            | FY'18         | FY'17  |
| Restructuring charges, net | \$ —          | \$ 2.8 |

Fee revenue was \$161.2 million in Q1 FY'18, an increase of \$14.8 million or 10.1% (an increase of \$16.0 million or 10.9% on a constant currency basis) compared to Q1 FY'17. The overall increase in fee revenue was primarily attributable to higher fee revenue in North America, EMEA and APAC regions.

Operating income was \$32.8 million in Q1 FY'18 compared to \$26.9 million in Q1 FY'17. Operating margin was 20.4% in Q1 FY'18 compared to 18.4% in the year-ago quarter. The

increase in operating income was due to higher fee revenue in Q1 FY'18 compared to Q1 FY'17, offset by an increase in compensation expenses of \$8.8 million due to an 8.0% increase in headcount.

Adjusted EBITDA was \$35.2 million in Q1 FY'18 with an Adjusted EBITDA margin of 21.8% compared to \$31.7 million and 21.6%, respectively, in the year-ago quarter.

**Selected Hay Group Data**  
(dollars in millions) <sup>(a)</sup>

|                                  | <b>First Quarter</b> |              |
|----------------------------------|----------------------|--------------|
|                                  | <b>FY'18</b>         | <b>FY'17</b> |
| Fee revenue                      | \$ 179.5             | \$ 174.6     |
| Total revenue                    | \$ 183.3             | \$ 181.5     |
| Operating income (loss)          | \$ 19.1              | \$ (7.7)     |
| Operating margin                 | 10.6%                | (4.4)%       |
| Ending number of consultants (b) | 583                  | 566          |
| Staff utilization (c)            | 63%                  | 67%          |

|                            |                      |              |
|----------------------------|----------------------|--------------|
| <b>EBITDA Results (d):</b> | <b>First Quarter</b> |              |
|                            | <b>FY'18</b>         | <b>FY'17</b> |
| EBITDA                     | \$ 27.2              | \$ 0.5       |
| EBITDA margin              | 15.2%                | 0.3%         |

|                              |                      |              |
|------------------------------|----------------------|--------------|
| <b>Adjusted Results (e):</b> | <b>First Quarter</b> |              |
|                              | <b>FY'18</b>         | <b>FY'17</b> |
| Adjusted fee revenue         | \$ 179.5             | \$ 178.1     |
| Adjusted EBITDA (d)          | \$ 30.0              | \$ 29.8      |
| Adjusted EBITDA margin (d)   | 16.7%                | 16.7%        |

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- (a) Numbers may not total due to rounding.  
(b) Represents number of employees originating consulting services.  
(c) Calculated by dividing the number of hours our full-time Hay Group professional staff record to engagements during the period, by the total available working hours during the same period.  
(d) EBITDA, EBITDA margin, Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures (see attached reconciliations).  
(e) Adjusted results are non-GAAP financial measures that adjust for the following, as applicable (see attached reconciliations):

|                                                                   | <b>First Quarter</b> |              |
|-------------------------------------------------------------------|----------------------|--------------|
|                                                                   | <b>FY'18</b>         | <b>FY'17</b> |
| Restructuring charges, net                                        | \$ 0.2               | \$ 21.5      |
| Integration/acquisition costs                                     | \$ 2.5               | \$ 4.3       |
| Deferred revenue adjustment related to the Legacy Hay acquisition | \$ —                 | \$ 3.5       |

Fee revenue was \$179.5 million in Q1 FY'18 compared to \$174.6 million in Q1 FY'17, an increase of \$4.9 million or 2.8% (an increase of \$6.6 million or 3.8% on a constant currency

basis) compared to Q1 FY'17. The increase in fee revenue is primarily driven by increases in product revenue.

Operating income was \$19.1 million in Q1 FY'18, resulting in an operating margin of 10.6% in the current quarter compared to (4.4)% in the year-ago quarter. Operating income increased by \$26.8 million from an operating loss of \$7.7 million in Q1 FY'17. The change in operating income was primarily due to a decrease in restructuring charges, net by \$21.3 million in Q1 FY'18 compared to the year-ago quarter and an increase in fee revenue.

Adjusted EBITDA was \$30.0 million in Q1 FY'18, essentially flat compared to Q1 FY'17, resulting in Adjusted EBITDA margin of 16.7% in both the current and year-ago quarters.

#### Selected Futurestep Data (dollars in millions)<sup>(a)</sup>

|                  | First Quarter |         |
|------------------|---------------|---------|
|                  | FY'18         | FY'17   |
| Fee revenue      | \$ 60.6       | \$ 54.7 |
| Total revenue    | \$ 65.8       | \$ 60.0 |
| Operating income | \$ 8.2        | \$ 7.5  |
| Operating margin | 13.6%         | 13.7%   |

|                        |       |     |
|------------------------|-------|-----|
| Engagements billed (b) | 1,205 | 921 |
| New engagements (c)    | 732   | 519 |

|                            |                      |              |
|----------------------------|----------------------|--------------|
| <b>EBITDA Results (d):</b> | <b>First Quarter</b> |              |
|                            | <b>FY'18</b>         | <b>FY'17</b> |
| EBITDA                     | \$ 9.0               | \$ 8.1       |
| EBITDA margin              | 14.9%                | 14.9%        |

(a) Numbers may not total due to rounding.

(b) Represents search engagements billed.

(c) Represents new search engagements opened in the respective period.

(d) EBITDA and EBITDA margin are non-GAAP financial measures (see attached reconciliations).

Fee revenue was \$60.6 million in Q1 FY'18, an increase of \$5.9 million or 10.8% (a \$6.3 million or 11.5% increase on a constant currency basis), compared to the year-ago quarter. The higher fee revenue was primarily driven by an increase in recruitment process outsourcing and professional search of \$5.2 million and \$1.4 million, respectively, in Q1 FY'18 compared to Q1 FY'17.

Operating income was \$8.2 million in Q1 FY'18, an increase of \$0.7 million compared to Q1 FY'17 operating income of \$7.5 million. Operating margin was 13.6% in the current quarter compared to 13.7% in the year-ago quarter.

EBITDA was \$9.0 million during Q1 FY'18, an increase of \$0.9 million compared to Q1 FY'17. EBITDA margin was 14.9% in both Q1 FY'18 and Q1 FY'17.

#### Outlook

Assuming worldwide economic conditions, financial markets and foreign exchange rates remain steady, on a consolidated basis:

- Q2 FY'18 fee revenue is expected to be in the range of \$412 million and \$428 million; and
- Q2 FY'18 diluted earnings per share is likely to range between \$0.54 to \$0.62.

On a consolidated adjusted basis:

- Q2 FY'18 adjusted diluted earnings per share is expected to be in the range from \$0.58 to \$0.66.

|                                                  | Q2 FY'18                                  |        |
|--------------------------------------------------|-------------------------------------------|--------|
|                                                  | Earnings Per Share Outlook <sup>(1)</sup> |        |
|                                                  | Low                                       | High   |
| Consolidated diluted earnings per share          | \$0.54                                    | \$0.62 |
| Restructuring charges, net                       | 0.01                                      | 0.01   |
| Retention bonuses                                | 0.05                                      | 0.05   |
| Tax rate impact                                  | (0.02)                                    | (0.02) |
| Consolidated adjusted diluted earnings per share | \$0.58                                    | \$0.66 |

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(1) Consolidated adjusted diluted earnings per share is a non-GAAP financial measure that excludes the items listed in the table.

## Earnings Conference Call Webcast

The earnings conference call will be held today at 4:30 PM (EDT) and hosted by CEO Gary Burnison, CFO Robert Rozek and SVP Finance Gregg Kvochak. The conference call will be webcast and available online at [ir.kornferry.com](http://ir.kornferry.com). We will also post to this section of our website earnings slides, which will accompany our webcast, and other important information, and encourage you to review the information that we make available on our website.

## About Korn Ferry

Korn Ferry is the preeminent global people and organizational advisory firm. We help leaders, organizations and societies succeed by releasing the full power and potential of people. Our more than 7,000 colleagues deliver services through Executive Search, Hay Group and Futurestep divisions. Visit [kornferry.com](http://kornferry.com) for more information.

## Forward-Looking Statements

*Statements in this press release and our conference call that relate to future results and events ("forward-looking statements") are based on Korn Ferry's current expectations. These statements, which include words such as "believes", "expects" or "likely", include references to our outlook. Readers are cautioned not to place undue reliance on such statements. Actual results in future periods may differ materially from those currently expected or desired because of a number of risks and uncertainties that are beyond the*

control of Korn Ferry. The potential risks and uncertainties include those relating to competition, changes in demand for our services as a result of automation, the dependence on attracting and retaining qualified and experienced consultants, our ability to successfully integrate acquired businesses including Legacy Hay, our ability to recognize the anticipated benefits of the acquisition of Legacy Hay which may be affected by, among other things, competition, our ability to grow and manage growth profitability, maintain relationships with customers and suppliers and retain key employees, costs related to the acquisition of Legacy Hay, maintaining our brand name and professional reputation, potential legal liability, the portability of client relationships, global and local political or economic developments in or affecting countries where we have operations, currency fluctuations in our international operations, risks related to growth, alignment of our cost structure with our growth, restrictions imposed by off-limits agreements, reliance on information processing systems, cyber security vulnerabilities, changes to data security, data privacy and data protection laws, limited protection of our intellectual property, our ability to enhance and develop new technology, our ability to develop new products and services, consolidation of industries we serve, our ability to successfully recover from a disaster or other business continuity problems, changes in our accounting estimates/assumptions, impairment of goodwill and other intangible assets, deferred tax assets, seasonality, our ability to successfully rationalize our cost structure and employment liability risk. For a detailed description of risks and uncertainties that could cause differences, please refer to Korn Ferry's periodic filings with the Securities and Exchange Commission. Korn Ferry disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

#### *Use of Non-GAAP Financial Measures*

*This press release contains financial information calculated other than in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). In particular, it includes:*

- *adjusted net income attributable to Korn/Ferry International, adjusted to exclude restructuring charges, net, integration/acquisition costs and write-off of debt issuance costs and to include the deferred revenue adjustment related to the Legacy Hay acquisition, net of income tax effect;*
- *adjusted basic and diluted earnings per share, adjusted to exclude restructuring charges, net, integration/acquisition costs and write-off of debt issuance costs and to include the deferred revenue adjustment related to the Legacy Hay acquisition, net of income tax effect; and in the case of the outlook section, also adjusted for tax rate impact;*
- *constant currency (calculated using a quarterly average) amounts that represent the outcome that would have resulted had exchange rates in the reported period been the same as those in effect in the comparable prior year period;*
- *EBITDA, or earnings before interest, taxes, depreciation and amortization and EBITDA margin;*
- *Adjusted EBITDA, which is EBITDA further adjusted to exclude restructuring charges, net and integration/acquisition costs and to include the deferred revenue adjustment related to the Legacy Hay acquisition and Adjusted EBITDA margin; and*
- *adjusted fee revenue, which includes revenue that Hay Group would have realized over the ensuing year if not for business combination accounting that requires a company to record the acquisition balance sheet at fair value and write-off deferred*

revenue where no future services are required to be performed to earn that revenue.

*This non-GAAP disclosure has limitations as an analytical tool, should not be viewed as a substitute for financial information determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies.*

*Management believes the presentation of non-GAAP financial measures in this press release provides meaningful supplemental information regarding Korn Ferry's performance by excluding certain charges and other items that may not be indicative of Korn Ferry's ongoing operating results. These non-GAAP financial measures are performance measures and are not indicative of the liquidity of Korn Ferry. These charges represent 1) costs we incurred to acquire and integrate the Legacy Hay acquisition, 2) charges we incurred to restructure the combined company due to the acquisition of Legacy Hay, 3) debt issuance costs written-off upon replacement of our credit facility and 4) revenue that Hay Group would have realized if not for business combination accounting that requires a company to record the acquisition balance sheet at fair value and write-off deferred revenue where no future services are required to be performed to earn that revenue. As such, reported fee revenue can make fee revenue and operating results appear to fluctuate more than they would if business combination accounting did not require deferred revenue to be written off. Adjusted fee revenue is not a measure that substitutes an individually tailored revenue recognition or measurement method for those of GAAP, rather, it is an adjustment for a short period of time that will provide better comparability in the current and future periods. Management believes the presentation of adjusted fee revenue assists management in its evaluation of ongoing operations and provides useful information to investors because it allows investors to make more meaningful period-to-period comparisons of the Company's operating results, to better identify operating trends that may otherwise be distorted by write-offs required under business combination accounting and to perform related trend analysis, and provides a higher degree of transparency of information used by management in its evaluation of Korn Ferry's ongoing operations and financial and operational decision-making. Management no longer has adjusted fee revenue after Q1 FY'17. The use of non-GAAP financial measures facilitates comparisons to Korn Ferry's historical performance. Korn Ferry includes non-GAAP financial measures because management believes they are useful to investors in allowing for greater transparency with respect to supplemental information used by management in its evaluation of Korn Ferry's ongoing operations and financial and operational decision-making. Management further believes that EBITDA is useful to investors because it is frequently used by investors and other interested parties to measure operating performance among companies with different capital structures, effective tax rates and tax attributes and capitalized asset values, all of which can vary substantially from company to company. In the case of constant currency amounts, management believes the presentation of such information provides useful supplemental information regarding Korn Ferry's performance as excluding the impact of exchange rate changes on Korn Ferry's financial performance allows investors to make more meaningful period-to-period comparisons of the Company's operating results, to better identify operating trends that may otherwise be masked or distorted by exchange rate changes and to perform related trend analysis, and provides a higher degree of transparency of information used by management in its evaluation of Korn Ferry's ongoing operations and financial and operational decision-making.*



*[Tables attached]*

**KORN FERRY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share amounts)

|                                                                                                | <b>Three Months Ended</b> |             |
|------------------------------------------------------------------------------------------------|---------------------------|-------------|
|                                                                                                | <b>July 31</b>            |             |
|                                                                                                | <b>2017</b>               | <b>2016</b> |
|                                                                                                | <b>(unaudited)</b>        |             |
| Fee revenue                                                                                    | \$ 401,254                | \$ 375,621  |
| Reimbursed out-of-pocket engagement expenses                                                   | 13,663                    | 17,312      |
| Total revenue                                                                                  | 414,917                   | 392,933     |
| Compensation and benefits                                                                      | 273,954                   | 262,967     |
| General and administrative expenses                                                            | 58,261                    | 55,342      |
| Reimbursed expenses                                                                            | 13,663                    | 17,312      |
| Cost of services                                                                               | 15,813                    | 16,832      |
| Depreciation and amortization                                                                  | 12,209                    | 11,444      |
| Restructuring charges, net                                                                     | 280                       | 24,520      |
| Total operating expenses                                                                       | 374,180                   | 388,417     |
| Operating income                                                                               | 40,737                    | 4,516       |
| Other income, net                                                                              | 3,532                     | 4,259       |
| Interest expense, net                                                                          | (2,660)                   | (3,061)     |
| Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries | 41,609                    | 5,714       |
| Equity in earnings of unconsolidated subsidiaries                                              | 30                        | 79          |
| Income tax provision                                                                           | 12,210                    | 1,725       |
| Net income                                                                                     | 29,429                    | 4,068       |
| Net income attributable to noncontrolling interest                                             | (388)                     | (860)       |
| Net income attributable to Korn/Ferry International                                            | \$ 29,041                 | \$ 3,208    |
| Earnings per common share attributable to Korn/Ferry International:                            |                           |             |
| Basic                                                                                          | \$ 0.52                   | \$ 0.06     |
| Diluted                                                                                        | \$ 0.51                   | \$ 0.06     |
| Weighted-average common shares outstanding:                                                    |                           |             |
| Basic                                                                                          | 55,795                    | 56,189      |
| Diluted                                                                                        | 56,403                    | 56,576      |
| Cash dividends declared per share:                                                             | \$ 0.10                   | \$ 0.10     |

**KORN FERRY AND SUBSIDIARIES**  
**FINANCIAL SUMMARY BY SEGMENT**  
(in thousands)  
(unaudited)

|                                              | Three Months Ended July 31, |                   |          |
|----------------------------------------------|-----------------------------|-------------------|----------|
|                                              | 2017                        | 2016              | % Change |
| <b>Fee Revenue:</b>                          |                             |                   |          |
| Executive search:                            |                             |                   |          |
| North America                                | \$ 91,833                   | \$ 81,802         | 12.3%    |
| EMEA                                         | 40,121                      | 35,370            | 13.4%    |
| Asia Pacific                                 | 21,578                      | 19,626            | 9.9%     |
| Latin America                                | 7,659                       | 9,563             | (19.9%)  |
| Total executive search                       | 161,191                     | 146,361           | 10.1%    |
| Hay Group                                    | 179,453                     | 174,582           | 2.8%     |
| Futurestep                                   | 60,610                      | 54,678            | 10.8%    |
| Total fee revenue                            | 401,254                     | 375,621           | 6.8%     |
| Reimbursed out-of-pocket engagement expenses | 13,663                      | 17,312            | (21.1%)  |
| Total revenue                                | <u>\$ 414,917</u>           | <u>\$ 392,933</u> | 5.6%     |

| <b>Operating Income (Loss):</b> | <b>Margin</b>    |       | <b>Margin</b>   |        |
|---------------------------------|------------------|-------|-----------------|--------|
| Executive search:               |                  |       |                 |        |
| North America                   | \$ 21,995        | 24.0% | \$ 16,468       | 20.1%  |
| EMEA                            | 6,675            | 16.6% | 6,027           | 17.0%  |
| Asia Pacific                    | 3,141            | 14.6% | 2,102           | 10.7%  |
| Latin America                   | 1,026            | 13.4% | 2,330           | 24.4%  |
| Total executive search          | 32,837           | 20.4% | 26,927          | 18.4%  |
| Hay Group                       | 19,083           | 10.6% | (7,743)         | (4.4%) |
| Futurestep                      | 8,237            | 13.6% | 7,513           | 13.7%  |
| Corporate                       | (19,420)         |       | (22,181)        |        |
| Total operating income          | <u>\$ 40,737</u> | 10.2% | <u>\$ 4,516</u> | 1.2%   |

**KORN FERRY AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except per share amounts)

|                                                                                                                                                 | July 31,<br>2017   | April 30,<br>2017 |
|-------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-------------------|
| <b><u>ASSETS</u></b>                                                                                                                            | <b>(unaudited)</b> |                   |
| Cash and cash equivalents                                                                                                                       | \$ 282,019         | \$ 410,882        |
| Marketable securities                                                                                                                           | 11,651             | 4,363             |
| Receivables due from clients, net of allowance for doubtful accounts of \$16,088 and \$15,455 at July 31, 2017 and April 30, 2017, respectively | 365,657            | 345,314           |
| Income taxes and other receivables                                                                                                              | 44,035             | 31,573            |
| Prepaid expenses and other assets                                                                                                               | 62,525             | 51,542            |
| Total current assets                                                                                                                            | <u>765,887</u>     | <u>843,674</u>    |

|                                                                             |                     |                     |
|-----------------------------------------------------------------------------|---------------------|---------------------|
| Marketable securities, non-current                                          | 114,608             | 115,574             |
| Property and equipment, net                                                 | 112,787             | 109,567             |
| Cash surrender value of company owned life insurance policies, net of loans | 113,866             | 113,067             |
| Deferred income taxes                                                       | 19,387              | 20,175              |
| Goodwill                                                                    | 583,265             | 576,865             |
| Intangible assets, net                                                      | 213,910             | 217,319             |
| Investments and other assets                                                | 90,617              | 66,657              |
| Total assets                                                                | <u>\$ 2,014,327</u> | <u>\$ 2,062,898</u> |

#### **LIABILITIES AND STOCKHOLDERS' EQUITY**

|                                   |                |                |
|-----------------------------------|----------------|----------------|
| Accounts payable                  | \$ 32,658      | \$ 37,481      |
| Income taxes payable              | 7,204          | 4,526          |
| Compensation and benefits payable | 145,752        | 248,354        |
| Term loan                         | 19,754         | 19,754         |
| Other accrued liabilities         | 153,386        | 148,464        |
| Total current liabilities         | <u>358,754</u> | <u>458,579</u> |

|                                                  |                |                |
|--------------------------------------------------|----------------|----------------|
| Deferred compensation and other retirement plans | 220,894        | 219,905        |
| Term loan, non-current                           | 231,284        | 236,222        |
| Deferred tax liabilities                         | 18,758         | 7,014          |
| Other liabilities                                | 55,886         | 54,130         |
| Total liabilities                                | <u>885,576</u> | <u>975,850</u> |

|                                                                                                                                                                                       |                     |                     |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Stockholders' equity                                                                                                                                                                  |                     |                     |
| Common stock: \$0.01 par value, 150,000 shares authorized, 71,480 and 70,811 shares issued and 57,246 and 56,938 shares outstanding at July 31, 2017 and April 30, 2017, respectively | 694,146             | 692,527             |
| Retained earnings                                                                                                                                                                     | 485,194             | 461,976             |
| Accumulated other comprehensive loss, net                                                                                                                                             | (54,691)            | (71,064)            |
| Total Korn/Ferry International stockholders' equity                                                                                                                                   | 1,124,649           | 1,083,439           |
| Noncontrolling interest                                                                                                                                                               | 4,102               | 3,609               |
| Total stockholders' equity                                                                                                                                                            | <u>1,128,751</u>    | <u>1,087,048</u>    |
| Total liabilities and stockholders' equity                                                                                                                                            | <u>\$ 2,014,327</u> | <u>\$ 2,062,898</u> |

#### **KORN FERRY AND SUBSIDIARIES RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES (in thousands, except per share amounts)**

|                                                    | <b>Three Months Ended</b> |             |
|----------------------------------------------------|---------------------------|-------------|
|                                                    | <b>July 31,</b>           |             |
|                                                    | <b>2017</b>               | <b>2016</b> |
|                                                    | <b>(unaudited)</b>        |             |
| Fee revenue                                        | \$ 401,254                | \$ 375,621  |
| Deferred revenue adjustment due to acquisition (1) | -                         | 3,535       |

|                                                              |                   |                   |
|--------------------------------------------------------------|-------------------|-------------------|
| Adjusted fee revenue                                         | <u>\$ 401,254</u> | <u>\$ 379,156</u> |
| Operating income                                             | \$ 40,737         | \$ 4,516          |
| Depreciation and amortization                                | 12,209            | 11,444            |
| Other income, net                                            | 3,532             | 4,259             |
| Equity in earnings of unconsolidated subsidiaries, net       | <u>30</u>         | <u>79</u>         |
| EBITDA                                                       | 56,508            | 20,298            |
| Deferred revenue adjustment due to acquisition (1)           | -                 | 3,535             |
| Restructuring charges, net (2)                               | 280               | 24,520            |
| Integration/acquisition costs (3)                            | <u>2,588</u>      | <u>8,027</u>      |
| Adjusted EBITDA                                              | <u>\$ 59,376</u>  | <u>\$ 56,380</u>  |
| Operating margin                                             | 10.2%             | 1.2%              |
| Depreciation and amortization                                | 3.0%              | 3.0%              |
| Other income, net                                            | 0.9%              | 1.1%              |
| Equity in earnings of unconsolidated subsidiaries, net       | <u>-</u>          | <u>0.1%</u>       |
| EBITDA margin                                                | 14.1%             | 5.4%              |
| Deferred revenue adjustment due to acquisition (1)           | -                 | 0.9%              |
| Restructuring charges, net (2)                               | 0.1%              | 6.5%              |
| Integration/acquisition costs (3)                            | <u>0.6%</u>       | <u>2.1%</u>       |
| Adjusted EBITDA margin                                       | <u>14.8%</u>      | <u>14.9%</u>      |
| Net income attributable to Korn/Ferry International          | \$ 29,041         | \$ 3,208          |
| Deferred revenue adjustment due to acquisition (1)           | -                 | 3,535             |
| Restructuring charges, net (2)                               | 280               | 24,520            |
| Integration/acquisition costs (3)                            | <u>2,588</u>      | <u>8,027</u>      |
| Write-off of debt issuance costs (4)                         | -                 | 954               |
| Tax effect on the above items (5)                            | <u>(724)</u>      | <u>(10,718)</u>   |
| Adjusted net income attributable to Korn/Ferry International | <u>\$ 31,185</u>  | <u>\$ 29,526</u>  |
| Basic earnings per common share                              | \$ 0.52           | \$ 0.06           |
| Deferred revenue adjustment due to acquisition (1)           | -                 | 0.06              |
| Restructuring charges, net (2)                               | -                 | 0.43              |
| Integration/acquisition costs (3)                            | 0.05              | 0.14              |
| Write-off of debt issuance costs (4)                         | -                 | 0.02              |
| Tax effect on the above items (5)                            | <u>(0.02)</u>     | <u>(0.19)</u>     |
| Adjusted basic earnings per share                            | <u>\$ 0.55</u>    | <u>\$ 0.52</u>    |
| Diluted earnings per common share                            | \$ 0.51           | \$ 0.06           |
| Deferred revenue adjustment due to acquisition (1)           | -                 | 0.06              |
| Restructuring charges, net (2)                               | -                 | 0.43              |
| Integration/acquisition costs (3)                            | 0.05              | 0.14              |
| Write-off of debt issuance costs (4)                         | -                 | 0.02              |
| Tax effect on the above items (5)                            | <u>(0.01)</u>     | <u>(0.19)</u>     |
| Adjusted diluted earnings per share                          | <u>\$ 0.55</u>    | <u>\$ 0.52</u>    |

Explanation of Non-GAAP Adjustments

- (1) This represents the deferred revenue recorded on the opening balance sheet of Hay Group, required by fair value accounting. The adjustment is included in the Hay Group segment for the three months ended July 31, 2016. On a GAAP basis, Hay Group fee revenue was \$179.5 million and \$174.6 million during the three months ended July 31, 2017 and 2016, respectively. On an adjusted basis, Hay Group fee revenue was \$178.1 million during the three months ended July 31, 2016.
- (2) Restructuring plan implemented in order to rationalize our cost structure by eliminating redundant positions and consolidating office space due to the acquisition of Legacy Hay on December 1, 2015.
- (3) Costs associated with completing the acquisition of Legacy Hay, such as legal and professional fees, and the on-going integration expenses to combine the companies.
- (4) Write-off of debt issuance costs as a result of replacing our prior Credit Agreement with a new senior secured Credit Agreement.
- (5) Tax effect on deferred revenue adjustment associated with the acquisition of Legacy Hay, restructuring charges, net, integration/acquisition costs and write-off of debt issuance cost.

**KORN FERRY AND SUBSIDIARIES**  
**RECONCILIATION OF NET INCOME AND OPERATING INCOME TO**  
**EBITDA AND ADJUSTED EBITDA (NON-CONTROLLING INTERESTS)**  
(in thousands)

|                                                        | Three Months     |           |              |               |            |
|--------------------------------------------------------|------------------|-----------|--------------|---------------|------------|
|                                                        | Executive Search |           |              |               |            |
|                                                        | North America    | EMEA      | Asia Pacific | Latin America | Su         |
| Fee revenue                                            | \$ 91,833        | \$ 40,121 | \$ 21,578    | \$ 7,659      | \$ 161,191 |
| Total revenue                                          | \$ 95,205        | \$ 41,058 | \$ 21,880    | \$ 7,664      | \$ 165,807 |
| Net income attributable to Korn/Ferry International    |                  |           |              |               |            |
| Net income attributable to noncontrolling interest     |                  |           |              |               |            |
| Other income, net                                      |                  |           |              |               |            |
| Interest expense, net                                  |                  |           |              |               |            |
| Equity in earnings of unconsolidated subsidiaries, net |                  |           |              |               |            |
| Income tax provision                                   |                  |           |              |               |            |
| Operating income (loss)                                | \$ 21,995        | \$ 6,675  | \$ 3,141     | \$ 1,026      | \$ 32,837  |
| Depreciation and amortization                          | 949              | 428       | 320          | 107           | 1,804      |
| Other income, net                                      | 282              | 56        | 105          | 20            | 463        |
| Equity in earnings of unconsolidated subsidiaries, net | 30               | -         | -            | -             | 30         |
| EBITDA                                                 | 23,256           | 7,159     | 3,566        | 1,153         | 35,134     |
| EBITDA margin                                          | 25.3%            | 17.8%     | 16.5%        | 15.1%         |            |
| Restructuring charges, net                             | -                | -         | 40           | -             | 40         |
| Integration/acquisition costs                          | -                | -         | -            | -             | -          |
| Adjusted EBITDA                                        | \$ 23,256        | \$ 7,159  | \$ 3,606     | \$ 1,153      | \$ 35,173  |
| Adjusted EBITDA margin                                 | 25.3%            | 17.8%     | 16.7%        | 15.1%         |            |

|  | Three Months     |      |              |               |    |
|--|------------------|------|--------------|---------------|----|
|  | Executive Search |      |              |               |    |
|  | North America    | EMEA | Asia Pacific | Latin America | Su |

|                                                   |    |        |           |    |        |    |       |       |
|---------------------------------------------------|----|--------|-----------|----|--------|----|-------|-------|
| Fee revenue                                       | \$ | 81,802 | \$ 35,370 | \$ | 19,626 | \$ | 9,563 | \$ 14 |
| Deferred revenue adjustment<br>due to acquisition |    | -      | -         |    | -      |    | -     |       |
| Adjusted fee revenue                              | \$ | 81,802 | \$ 35,370 | \$ | 19,626 | \$ | 9,563 | \$ 14 |
| Total revenue                                     | \$ | 85,425 | \$ 36,249 | \$ | 20,180 | \$ | 9,614 | \$ 14 |

Net income attributable to Korn/Ferry International

Net income attributable to noncontrolling interest

Other income, net

Interest expense, net

Equity in earnings of  
unconsolidated subsidiaries, net

Income tax provision

|                                                           |    |        |          |    |       |    |       |      |
|-----------------------------------------------------------|----|--------|----------|----|-------|----|-------|------|
| Operating income (loss)                                   | \$ | 16,468 | \$ 6,027 | \$ | 2,102 | \$ | 2,330 | \$ 2 |
| Depreciation and amortization                             |    | 830    | 211      |    | 225   |    | 114   |      |
| Other income (loss), net                                  |    | 288    | 24       |    | 87    |    | 73    |      |
| Equity in earnings of<br>unconsolidated subsidiaries, net |    | 79     | -        |    | -     |    | -     |      |
| EBITDA                                                    |    | 17,665 | 6,262    |    | 2,414 |    | 2,517 | 2    |
| EBITDA margin                                             |    | 21.6%  | 17.7%    |    | 12.3% |    | 26.3% |      |

Restructuring charges, net

Integration/acquisition costs

Deferred revenue adjustment  
due to acquisition

|                        |    |        |          |    |       |    |       |      |
|------------------------|----|--------|----------|----|-------|----|-------|------|
| Adjusted EBITDA        | \$ | 19,371 | \$ 6,390 | \$ | 3,036 | \$ | 2,877 | \$ 3 |
| Adjusted EBITDA margin |    | 23.7%  | 18.1%    |    | 15.5% |    | 30.1% |      |

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