

**Korn Ferry**  
**Second Quarter Fiscal Year 2024 Earnings Release**  
**December 6, 2023**

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**Presenters**

**Gary Burnison, CEO**

**Robert Rozek, CFO, EVP, and COO**

**Gregg Kvochak, Senior Vice President of Finance**

**Tiffany Louder, IR**

**Q&A Participants**

**George Tong - Goldman Sachs**

**Mark Marcon - Baird**

**Tobey Sommer - Truist Securities**

**John Mackay - Goldman Sachs**

**Trevor Romeo**

**Josh Chan -UBS**

**Operator**

Ladies and gentlemen, thank you for standing by and welcome to the Korn Ferry second quarter fiscal year 2024 conference call. At this time, all participants are in a listen only mode. Following the prepared remarks, we will conduct a question and answer session.

As a reminder, this conference call is being recorded for replay purposes. We have also made available in the investor relations section of our website at [kornferry.com](http://kornferry.com) a copy of the financial presentation that we will be reviewing with you today.

Before I turn the call over to your host, Mr. Gary Burnison, let me first read a cautionary statement to investors. Certain statements made in the call today such as those related to future performance plans and goals constitute forward looking statements within the meeting of private securities litigation Reform Act of 1995. Although the company believes the expectations reflected in such forward looking statements are based on reasonable assumptions, investors 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, which are beyond the company's control. Additional information concerning such risks and uncertainties can be found in the release relating to this presentation and in the periodic and other reports filed by the company of the SPC, including the company's annual report for fiscal year 2023 and in the company's soon to be filed quarterly report for the quarter ended October 31, 2023.

Also, some of the comments today may reference non-GAAP financial measures such as constant currency amounts, EBITDA, and adjusted EBITDA. Additional information concerning those measures, including reconciliations to the most directly comparable GAAP financial measures is contained in the financial presentation and earnings release relating to this call, both of which are posted in the investor relations section of the company's website at [www.kornferry.com](http://www.kornferry.com). With that, I'll turn the call over to Mr. Burnison. Please go ahead, Mr. Burnison.

### **Gary Burnison**

Okay. Good afternoon, everybody. And thank you for joining us and Season's Greetings. The team is going to get into this in more detail, but there's no doubt that the strategy is working. Despite a softer labor market, our results demonstrate the resiliency of our business. Through a marquee and regional account strategy, multiple talent product offerings, and cross referring those solutions to our clients, we generated \$704 million in fee revenue in the quarter, which was down about 3% year over year.

Despite a persistent uneven economic environment, earnings and profitability held steady sequentially as we delivered a 14% adjusted EBITDA margin. And also, we announced this morning, reflecting that we've got a much different company today and the confidence that we have in our organization, we increased our dividend by 83%. I'm proud of our firm, and of our colleagues, we continue to develop increasingly relevant solutions in a rapidly changing world.

In particular, our consulting and digital businesses now generate almost 40% of our top line. And in fact, digital achieved an all-time record revenue, that constant currency during the quarter. You know, to put all this in perspective, I want to take a step back for a moment. When I started with our firm, we were a couple 100 million dollar company. Today, our firm generates several billion dollars in revenue. In fact, our top line today is about 40% higher than pre pandemic levels. And now we're at the threshold of even greater opportunity.

More importantly, we have the possibility of accelerating the trajectory of thousands of organizations. At the same time, we have to acknowledge that most of the business world is in the midst of a multi quarter cyclical reset. It has become clear that the economic environment will continue to be challenging in the months ahead. Countries have been transitioning from almost three decades of cheap money to substantially higher interest rates. This reset will require companies and our clients to not only adapt but adjust, optimize, and innovate, which creates opportunity for Korn Ferry.

We have a proven track record of accelerating through many economic terms. The crucial aspect is breaking before the turn and accelerating through it. In times like these, that's how great companies make their best moves, and Korn Ferry is a great company. Our vision to become the premier organizational consultant firm's working in our diversification strategy continues to positively influence our performance.

We have a household brand operating in every major geographic region of the world, with world class IP and talent, unparalleled client access, and a pristine balance sheet with substantial financial muscle. We power through cycles and are poised to seize opportunity with a three point strategy; number one, optimize; number two, innovate; and number three, consolidate. I'll now turn the call over to Bob who will cover all of this in more detail. Bob?

**Robert Rozek**

Great. Thanks, Gary. And good afternoon or good morning. Similar to Gary, I'm very pleased with our performance this quarter. You know, it clearly demonstrates that our broader diversification strategy and investment thesis continues to play out. Our consulting and digital businesses both grew year over year, and our recently acquired interim businesses were more durable than our permanent placement talent acquisition solutions.

Now, this intentional diversification into strategically aligned capabilities provides additional cross line of business referral opportunities and more relevant scalable solutions for our marquee in regional accounts. It also contributes to not only more durable fee revenues, but to increased earnings stability, as shown in the company's sequentially stable adjusted EBITDA, despite an increasingly complex and uncertain macroeconomic backdrop. I'm also pleased with our cost management is the company's adjusted EBITDA margin mark the second consecutive quarter of continued sequential improvement.

Additionally, at the end of the second quarter, we took actions to right size our workforce capacity to better align it with current business realities, as well as to take advantage of productivity gains we're realizing in this new world of work. These actions will help us to continue with our adjusted EBITDA margin improvement by driving approximately 110 to \$120 million in overall annual cost saves.

Finally, and going back to the point Gary ended with, we do plan to continue to seize opportunities in the current environment with our three point strategy. He said, optimize, innovate, and consolidate. Let's start with optimize first. We're going to continue to drive productivity by leveraging our cost base. In fact, if you take Q2 of FY 24 and compare that to Q3 of FY 20, that was the quarter right before--right before the pandemic, our FY revenue per employee is up 23%. And if you were to pro forma a full quarter of the impact from our recent restructuring actions, that would actually be up 33%.

Now we turn to innovate. We will continue to build moats around our solutions and services using our proprietary data content and IP, which truly differentiates us from our competitors, who generally have to rely on third party data and insights. We are also actively embedding AI into our existing solutions and services to drive greater delivery efficiencies along with greater client impact. Last, we'll continue with our investments to monetize their data content and IP through our digital business.

Now we'll touch upon consolidate, where efforts are going to be focused on continuing our investment in strategically aligned less cyclical, faster growing enlargeable addressable markets. With all of our recently acquired interim businesses now being fully integrated in the increasing relevance of our services and solutions in the world today, we will continue to leverage our existing client relationships and our colleagues across all lines of business will drive top line fee revenue synergies through expanded client penetration.

Lastly, we'll continue to expand our leadership and professional development business by replicating our success in delivering leadership coaching at scale, and an increasing number of clients and leveraging this success into a broader leadership development outsourcing offering. Now let me turn the call over to Gregg who will take you through some overall company financial highlights.

### **Gregg Kvochak**

Okay. Thanks, Bob. In the second quarter, global free revenue was \$704 million, which was above the high end of our guidance range, and down 3% year over year or 5--down 5% at constant currency. By line of business consulting and digital, which combined were approximately 40% of consolidated revenue, continue to be stable, each growing approximately 3% in the second quarter.

For talent acquisition, permanent placement fee revenue continued to moderate from post pandemic highs with executive search, RPO, and professional search down 7%, down 18%, and down 29% respectively. Fee Revenue in the second quarter for interim services was also more stable, down sequentially approximately \$2 million or 2%.

Consolidated new business and the second quarter, excluding RPO, was down 3% year over year at actual FX rates and down 4% at constant currency. Consulting New Business in the second quarter was strong up 10% year over year driven by EMEA, which was up 34%. Digital new business was up sequentially in the second quarter, but down 15% measured year over year due primarily to a strong fiscal Q2, which included several large contract wins.

Similarly, RPO had a strong quarter with new business at \$141 million. New business in the second quarter for executive search was down 10% year over year, and for professional surgeon interim was up 1% year over year. In line with guidance, second quarter earnings and profitability remained sequentially stable. Adjusted EBITDA in the second quarter was \$99 million. And despite moderating fee revenue, strong cost control drove adjusted EBITDA margin to 14% up 30 basis points sequentially.

Finally, our adjusted fully diluted earnings per share in the second quarter or \$0.97, down \$0.46, or 32% year over year. Adjusted fully diluted earnings per share excludes \$70 million, or \$1.01 per share of restructuring charges related to the realignment of our workforce, and integration and acquisition costs associated with our recent acquisition. GAAP diluted loss per share in the second quarter was minus \$0.04.

Our investable cash position at the end of the second quarter remained strong at \$464 million. Through the end of the second quarter, we deployed \$65 million of cash using \$28 million for share repurchases and dividends, \$28 million for capital expenditures, and \$9 million for debt service. Now, I'll turn the call over to Tiffany to review our operating segments in more detail.

### **Tiffany Louder**

Thanks, Gregg. Starting with KS Digital, global fee revenue in the second quarter was \$97 million, which was up 3% year over year and up 1% at constant currency. Digital subscription and licensee revenue in the second quarter was 32 million, which was approximately 33% of fee revenue for the quarter and up 12% versus Q2 of last year.

The strategy of multi-year subscriptions has created some resiliency in Digital's revenue as this quarter marked the near all-time high in fee revenue for the segment. Global new business for digital was \$95 million with \$34 million or 36% of the total tied to subscription and licensed sales. Although the quarterly timing of larger new business projects is different than last year, the overall pipeline for digital remains strong as we head into the back half of our fiscal year.

For consulting, fee revenue in the second quarter was \$178 million, which was up approximately 3% year over year and up 1% at constant currency. Fee revenue growth was strongest in organizational strategy, which increased 19% year over year, and an assessment and succession, which grew 7% year over year. The average hourly bill rate continues to climb now at \$413 an hour which is up over \$42 an hour from just one year ago.

Additionally, global new business for consulting in the second quarter was up 10% year over year, with continued double digit growth in EMEA resulting from large organizational strategy when in the UK and Middle East. Total fee revenue and professional search and interim in the second quarter was \$138 million, up \$3.6 million or 3% versus Q2 of FY 23. Breaking down the quarter, year over year fee revenue growth was mostly driven by the interim business which offset moderation in the permanent placement portion of the segment.

Interim services fee revenue grew to \$80 million up from \$55 million in the same quarter of the prior year. Driven in part by the most recent acquisition. The average interim hourly bill rate has increased to an average of \$126 per hour, up from \$107 just one year ago. Per Minute placement fee revenue declined by \$23 million to \$56 million year over year, down 29% at actual and down 30% at constant currency. The professional search and enter new business increased 1% in the quarter compared to last year, driven by growth in EMEA and aided by the most recent acquisition.

Moving on to recruitment process outsourcing. New business for the second quarter was \$141 million, comprised of \$53 million of new logos and \$88 million of renewals, and total revenue under contract at the end of the quarter was approximately \$681 million. Fee revenue totaled

\$88 million, which was down \$20 million or 18% year over year and down approximately 20% at constant currency.

Fee revenue is impacted by a moderation in hiring volume in the existing base of contracts. We see this slowdown as transitory and believe RPO was well positioned to benefit when hiring returns to more normalized levels in the base, and the larger more recent wins begin converting to revenue at their full contract value. Although the quarterly new business can be choppy at times, the pipeline remains strong, as RPO continues to win new business with a differentiated service offering in the marketplace.

Finally, global fee revenue for executive search in the second quarter was \$203 million, and as expected, experienced a year over year decline of 9% at constant currency compared to the accelerated growth rates during the pandemic recovery last year. Demand continued to moderate across most regions with the exception of Latin America. Global new business in the second quarter for executive search was down 10% year over year and down approximately 11% at constant currency. I will now turn the call back over to Bob to discuss our outlook for the third quarter of fiscal 24.

#### **Robert Rozek**

Great. Thanks, Tiffany. November new business came in line with our expectations and the normal seasonal patterns. And assuming no new major pandemic related lock downs or further changes in worldwide geopolitical conditions, economic conditions, financial markets, and foreign exchange rates, we expect fee revenue in the third quarter of fiscal 24 to range from 645 million to \$665 million, our adjusted EBITDA margin to improve to approximately 15%, and our consolidated adjusted diluted earnings per share to range from \$0.96 cents to \$1.20.

Finally we expect our GAAP diluted earnings per share in the third quarter, to range from \$0.87 cents to \$0.95 cents. Now, in closing, as I look across the organization, we're extremely well positioned in terms of what the world is looking for. Everything today is about talent. There's a war for talent. Companies that are looking for better talent, different talent, talent, with IT skills and so on.

The collection of our IP data and content woven through our core in integrated solutions really creates a unique and symbiotic ecosystem of service offerings that touch every aspect of an employee's engagement with his or her employer. We're the only company in the world that has this collection of IP data, content, and assets. It really gives us a great platform to help our clients synchronize their strategy and talent to drive superior performance, conquer change coming out stronger on the other side. With that, we would be glad to answer any questions you may have.

#### **Operator**

Ladies and gentlemen, if you wish to ask a question, please press "1" then "0" on your telephone keypad. You may withdraw your question at any time by repeating the "1" "0" command. If you're using a speakerphone, please pick up the handset before pressing the numbers. Once again, if

you have a question, you may press "1" then "0" at this time. One moment, please, for the first question. The first question comes from George Tong with Goldman Sachs. Please go ahead.

**George Tong**

Hi, thanks. Good morning. New business ex-RPO and (inaudible) decline in the quarter but looks like November is following normal seasonal patterns. Can you talk a little bit more about new business trends that you saw by month during and exiting the quarter and if November trends suggests that we've essentially formed the bottom in terms of new business?

**Gary Burnison**

The, you know, the new business trends over the last five months have been pretty flat. That's number one. And it does appear that searches has stabilized, particularly, you know, taking a look at even the last four quarters. October was substantially better than September, which we would expect. And November came in, which is, you know, November is a seasonal month. And it came in exactly where we thought. So it's been fairly stable, pretty consistent in terms of terms of trends.

**George Tong**

Got it. That's helpful. You additionally talked about increasing cross referrals among large marquee and regional accounts. Can you provide some metrics on the expense of cross selling and where you're seeing the most amount of cross selling, which divisions?

**Gary Burnison**

Well, the cross selling, you know, look, the marquee and regional accounts is the anchor of our strategy. It's 38% of our top line. And in fact, this quarter, it was 38% of new business. And if you look, you know, overall across referrals right now, I think year to date or something, around 25% of the company's top line. And in some businesses, the percentage is higher. In some, it's lower.

When you look at RPO, it's tended to be a very high percentage, substantially higher than 25%. We've certainly been very, very thrilled by saying the level of cross referrals into our (inaudible) business that we didn't have three years ago. And then that continues to bear fruit. So you know, parts of the business, it's higher in some lower and, you know, that's the (inaudible) strategy, to have multiple offerings, to have reasons to talk to clients, and to drive deeper impact and change the trajectory of literally, you know, thousands of organizations.

**George Tong**

Very helpful. Thank you.

**Operator**

Next question comes from line of Mark Marcon with Baird. Please go ahead.

**Mark Marcon**

Hey, good morning, or good afternoon, depending on where you are. I had several questions. One, you know, Gary, you started out by basically talking about, you know, hey, we've got this big reset in terms of getting ready for, you know, changes in rates.

From your conversations and with your top consultants and the feedback that they're giving you, you know, how are they viewing this reset? Like, how long do they think it's going to take? How is that impacting talent plans? What are you just seeing from that perspective? Because things have been stable for the last five, you know, months. And in addition to that, we are seeing, you know, some chatter about Goldilocks and maybe a soft landing instead of expected recession. So I'm just wondering how that all melts together.

### **Gary Burnison**

Well, the, you know, in my conversations with clients and our consultants, it varies. You know, it varies depending on where you are, there's parts of the world that are investing heavily, and there's others that are not. My--you know, look, you step back, and this is my read of things is that, number one, there's no question the labor market is softer.

I mean, you know, a couple years ago, the United States was producing, you know, like 600,000 jobs a month. Last year, it was 400,000. This year, it's, it's 200,000. And October is probably like 100,000. So there's no question that, you know, coming off this, this, you know, incredible surge after the pandemic, that the labor market has moderated.

I would expect deflation. I think that is going to happen corn and wheat prices are back to pre-pandemic levels. You look at companies results over the past few quarters, and there's a consistent theme, you know, volume down prices up. Package shrinking. I would expect that there to be deflationary pressures, broadly, broadly speaking. And I'm certainly not an economist, but I would think that central banks are going to hold pretty firm in where the rates are for the next several months.

And, you know, mid to late '24, maybe there's some relief in that but I think that, you know, this environment has taken companies time to adapt and adjust. And I think that's what you're saying, with a higher cost of carry. But it's just--it's clear to me that prices have to come down, you know, overall.

### **Mark Marcon**

Okay. Great, I appreciate the perspective. With regards to capital allocation--so, you know, congratulations on increasing the dividend. I know that that's been a point of discussion with the board for quite some time. Can you talk a little bit about the dynamics that led to such a strong increase in terms of the dividend? And just, you know, what--how, both the top management as well as the board, what changed in terms of the thinking? And how should we interpret that with regards to, you know, further investments in terms of areas like, interim or professional search?

### **Gary Burnison**



Confidence, confidence, confidence. I mean, that's the answer. We have a completely different company today than we did several years ago and we have confidence in our ability to generate sustainable profits. It is not, by any stretch of the imagination, a deviation from our strategy. We have a multibillion dollar opportunity ahead of us. We're going to continue to make investments, to do acquisitions, but it reflects confidence in what the business is today.

And you can see it in the results. I mean, you can see a soft labor market and clearly the perm, you know, recruiting side of the business would ebb and flow with that. But you look at the other parts and it's buoyed. You know, it's substantially lifted the firm's results. So it's all around confidence.

And, you know, you look at our growth rate over 20 years, it's probably about 14%. I think, last 10 years, it's 12%. 40% of that has been M&A, 60% has been organic. We're continuing to think that will be the playbook going forward. It could change if there's a big opportunity that comes our way. And that's one of the reasons why we took the actions we did, unfortunately, is to make sure that we're breaking and that we can make investments and deliver, you know, returns to shareholders. So we think that a balanced approach is the best way. Number one is to invest in the business, as we've done. But we also have to be mindful of returning cash to shareholders, either through dividends or stock buybacks.

#### **Mark Marcon**

Really appreciate that. I'm sure that shareholders do as well. With regards to the--with regards to just the, you know, the separation and the restructuring that's occurring, what--which sections are being impacted the most from that perspective, in terms of when we take a look at the overall headcount reduction and that \$110 to \$120 million in terms of cost reductions? Which divisions are being impacted the most there.

#### **Gary Burnison**

It was fairly broad based, and it kind of follows the trend in new business. Look, this is, you know, something that, you know, I just, absolutely, it's gut wrenching. And it's a decision that was not taken lightly. Thought months about it, tried a lot of different things. And it's something that just weighs heavily on me even today.

But the reality is that great companies make their best moves, in times that aren't as rosy. And to do that, you have to make sure that you have financial freedom and flexibility to keep making investments. And that was the decision that I took. And unfortunately, it impact--it was about 8% of the organization. And it pretty much followed what the trends that you see in new business for the most part, both geographically by industry and by solution.

#### **Robert Rozek**

And Mark, it's Bob. The broad based outcome really relates not only to the fact that we're getting--taking out excess capacity. But remember, we also are taking advantage of some of the

productivity gains that we're getting in the world of work today, and that's what gave us the opportunity to be more broad based this versus more surgical.

**Mark Marcon**

I've got lots of other questions, but I'll jump back in the queue.

**Operator**

And our next question comes from line of Tobey Sommer with Truist Securities. Please go ahead.

**Tobey Sommer**

(Inaudible) capital intensity over the last few years, you know, CapEx has gone from like \$31 million in fiscal 21 and it looks like what I run right for over 80 this year. Can you talk about that, what the--what your goals are for what it will achieve and if there's a potential for it to normalize down as a percentage of sales and/or operating cash flow?

**Gary Burnison**

Tobey, the first part of your question that was cut off. Could you--

**Tobey Sommer**

--Yeah, absolutely. So I wanted to ask about capital intensity. In recent years and year to date, CapEx has gone up significantly, it's more than doubled in sort of three and a half years. So I want to know what the goals are, what you're achieving and/or achieve in the future, and whether that could normalize down as a percentage of sales and operating cash.

**Gary Burnison**

Yeah, well, I look, it's, it's number one, it's around the IP and embedding the IP in everything that we do. And you know, with all the conversations around AI, it first starts with data and proprietary data. And that we have that, I mean, we develop as you know, over a million professionals a year. We've done 100 million assessments. So the CapEx and the investment there is a really around data and IP and how we blend together the entire platform.

And you know, for example, in both, you know, consulting and digital, we break those segments out separately, but in fact, they very much go hand in hand in that consulting uses the IP of the firm in many of its engagements. So I think that's fundamental to the company's future is around proprietary IP data knowledge, particularly with these conversations around AI.

I don't think it will be as quite as high as 80. But I do think that there's a level that we're going to want to maintain to seize the opportunities going forward. And so when we look at this, we, you know, our track record, and we've got 20 years, you look, it's been fairly balanced in terms of our strategy. We say what we mean, we do what we say. And I would expect that it's going to continue to be balanced. Will that moderate somewhat this year? I think it probably will in the back half of the year. But we have to invest in the monetization and the integration of our IP into the solutions that we offer, including in search.

**Tobey Sommer**

I appreciate that.

**Robert Rozek**

Hey, Tobey, I think you're--the number you mentioned, the 80 million is high. You should be thinking this year CapEx is probably 60 million, plus minus.

**Tobey Sommer**

Okay, so does the edge down from last fiscal year?

**Robert Rozek**

Yeah, last fiscal year was--I'm sorry, go ahead.

**Tobey Sommer**

I appreciate that detail. How do we assess the effectiveness of those investments? Because they're multiyear in nature and it's a process. Is it more rapid growth in the licensing piece within digital is a also, you know, a boost in the medium term growth rate of consulting? Like, sort of, from where we sit outside the company, how do we assess the efficacy of those investments?

**Gary Burnison**

Well, I think the first thing is number one, you know, this is this is, you know, is the hole bigger than the sum of the parts. And so, you know, how does the firm perform? Overall, when you start to peel back, I think you first have to look at consulting and digital together. And, you know, what are those solutions doing relative to any kind of market expectations?

And so, you know, today that that business is a 1.1 billion, 1.2 billion. And as we talked about, look at the consulting growth rate. I mean, you know, the new business in October was up like 10% and the wins that we're getting are complex engagements, bigger sizes. Look at the rate per hour. The rate per hour on our consulting business has gone from like \$300 to, you know, \$413 in the matter of two, two and a half years. That's a direct result of the investments we've made the strategy around the marquee and regional accounts, the strategy around going to bigger engagements. So I think that's something you can look at.

You know, the RPO business, you know, the success in the RPO business is because of the account strategy because of the talent that we have. But you know, the big part is around the IP and the technology that we're bringing to clients. Now, this is a pretty tough some pair with what we're saying and what others are saying in the RPO industry with what I call previously labor hoarding. It's difficult to really, you know, to assess it in this particular cycle. But I think you can look at that. And again, just look back over, you know, many years. I can remember 10 years ago that business was \$50 million. Today, the run rates, you know, more like 320, 350, something like that. You know, I think you would look at that is as well,

**Robert Rozek**

And Tobey, the other thing you have to think about too with the total capital spend is a portion of that goes to infrastructure, right, whether we're updating systems, or strengthening the foundation to keep the bad guys out, probably 15 to 20% of what we spend is infrastructure spending.

**Tobey Sommer**

Sure. Gary, how do we think about and how do you think about the internal recruiting capability that your customers have retained during this uncertain economic period of the last seven or eight quarters? And what does it mean to the ability of the company to sort of grow as, perhaps, marginal demand increases? How much will be retained internally at the customers versus represent, you know, given itself as demand to (inaudible)?

**Gary Burnison**

Well, I think ultimately depends on the quality and the knowledge that we bring. Clearly, you know, we have seen companies retain a larger share of, you know, areas of shared services that I wouldn't have guessed. I mean, there's, there's no question about it. But you know, you look at the business today, and for example, you know, the search business is essentially, where it was, you know, pre-pandemic levels.

And so do I think that that's going to have a negative impact when it's a little sunnier? No, I don't think it's going to have some material negative impact, because I've got a lot of confidence. And I think the data shows that the IP and the insight that we bring is pretty special in the marketplace. So I wouldn't expect that to have a, you know, a big negative overhang on what we do around recruiting in the labor market.

**Tobey Sommer**

If I could sneak one last one, I want to react to something you said earlier. You said perhaps general deflation. How could that manifest itself in wages and how does that representation wages impact your growth in a year or two? Thanks.

**Gary Burnison**

Well, you know, there's going to continue--I think there's going to continue to be some wage pressure, but you've seen that really moderate big time over the last few months. I mean, the quit rate has gone down substantially. You know, and that's what happens in cycles. You know, it goes from, you know, an employer market to an employee market and back and forth. But I do think, overall, that that deflationary impact will ultimately result in central banks, you know, revisiting the levels of rates. And I think that could create freedom for companies in terms of investment. So I would view that as a good thing.

I mean, it's clear what the--you know, the central banks and this unprecedented move that they've made over many months here, it has had a big, big impact on the economy. There's just no, no question about it. The United States, going from 600,000 jobs a month to now, you know,

this month, probably 100,000, I mean, that's incredible. That's unbelievable. So it's had its impact. And I have to believe that out, you know, say, five, six months down the road, there has to be a relook at that.

**Tobey Sommer**

Thank you for being so generous with my question.

**Operator**

Next question comes from line of Trevor Romeo (sp). Please begin.

**Trevor Romeo**

Hi, thanks so much for taking the questions. First one, just on the revenue guidance. Just wondering if you could talk about your expectations for each segment. I think in total, it's maybe a mid to high single digit decline sequentially that's embedded. Kind of on a consolidated basis, just wondering if you could kind of talk about the various factors for each of the businesses.

**Gary Burnison**

The--first overall, when we historically look at our results, you would tend to think that the third quarter, based on historical averages, we'd be down about 5% from the second quarter. And you know, basically, you know, our guide is in line with that. And I would expect that the results in the third quarter are going to mirror what we've talked about here in terms of new business trends. So I would probably expect the search business to be down, you know, 10% or so.

I would expect the consulting business to be strong, strong is a relative term and this kind of economy, for sure. And so that's how I would think about it. On the interim side, I would expect that the technology area would improve slightly over what it's been. And so that's kind of broad based how I would look at the components of the business.

The--on a geographic bases, I would expect EMEA to continue to perform well. And again, you know, that's relative to the economy that we're dealing with. But that could be moderate growth, it can be flat. Asia, historic, you know, historically, in Asia over the last, you know, several quarters has been off. China has been a drag on our results of about--to the tune of about \$50 million a year.

The good news in the last two, three months is we've seen some improvement in Asia, which would be great for us. We have a great team there. So that's, that's how I would think about it. The RPO business, you know, the level of new business, this new wins this quarter was about 100, almost 150, 141. So 600 million, that's kind of what it was excluding last year. You know, after the pandemic, it was kind of 600 million a year. So that's how I kind of think about it.

**Trevor Romeo**

Okay, thanks, Gary. That's helpful. On the leadership development outsourcing or the coaching at scale business you've been talking more about lately, just kind of wondering if you could talk

about how you progress toward that opportunity the past several months and how significant that can be to the company in the future.

### **Gary Burnison**

Well, it comes back to Tobey's question around investment in capital. I mean, you know, part of that investment in capital is around some of our training businesses, and we have to continue to invest in that. So, you know, that training business is, you know, roughly, call it 10% of the overall company's revenue footing. It's an enormous market. It's, you know, it's probably 100 billion. I mean, it's, it's massive in terms of the market opportunity there.

We continue to win mandates of not just teams, but thousands of people within an organization, particularly at a time like this when companies have to really adapt and adjust and innovate and optimize and think about AI and think about their talent strategies. So it does present an incredible opportunity for us, but the key is around the IP. And we have to make sure that we're making the investments to enable the development, you know, to create real learning journeys for companies and their employees.

### **Robert Rozek**

And Trevor, this is Bob. The one thing we are seeing right now on leadership development, outsourcing our, you know, the journey to stand that up is clients are coming to us now. We have a leadership development, outsourcing diagnostic. So we're helping clients to understand, you know, most clients, they're spending so dispersed across your organization. In these times we're trying to optimize costs, where we started to get mandates around cost optimization of their leadership development spend through our diagnostic tool.

### **Trevor Romeo**

Great, thanks. And then if I could maybe sneak one more in just to follow up on the restructuring, I think the, you know, the annual cost savings, I think is about 4% of the current revenue run rate. I mean, just simplistically, would you expect that to have about a 4% positive impact on margins on an ongoing basis, or would there be some offsets there? And then on kind of a phasing or the timing, will all of that benefit be captured by the end of Q3, or would there be some lagging impacts beyond that? Thanks.

### **Robert Rozek**

I'll jump on that one, Gary. So I'll answer the second part first. The majority of the saves, we would expect to see in Q3. There are some situations in foreign countries where, for example, people are on garden leave, and so on. And so getting the costs out of the business takes a bit longer. But I would say for the most part, we'll realize the savings, you know, in the third quarter.

You heard Gary talk about sort of breaking before the turn and then accelerating through it. And so part of the reason why we took the actions is to give us the ability to make investments as we go through this cycle. So the 400 basis points that you're referring to, you know, you should be thinking about this business from a, I would say for the near term, kind of a 14.5 to 15.5 % margin,

adjusted EBITDA margin. And then obviously, once you know the fog lifts and the world gets back to more normal environment, we would expect to be in the kind of the 16 to 18% range that we previously talked about.

**Trevor Romeo**

Okay, understood. Thank you very much.

**Operator**

And our next question comes from line of Josh Chan with UBS. Please go ahead.

**Josh Chan**

Hi, good morning. Thanks for taking my questions. So just one question on the guidance. You mentioned that in the third quarter, you expect about 15% EBITDA margin, which is obviously higher than what you did in Q2. So I was just wondering, in what businesses do you expect to see the--most of that sequential margin improvement?

**Gary Burnison**

Well, we want to see it in all of them. The--before the pandemic, we were, you know, kind of consistently running at 14, 15% EBITDA margin. Then we entered into a brand new market around interim services. And when you pro-forma that out and look at the history, the immediate history before the pandemic, that kind of 14.5, 15 historical number translates to about 12.5 13%, something like that.

And so what we're guiding to here is, you know, a 15%. So we would think on an apples to apples basis that this would be, you know, 2-300 basis points higher than pre pandemic and with the investments that we have made over the years, as Bob talked about in terms of productivity improvements, using AI and the like, we better see that kind of profit increase. So that's how we're thinking about it.

**Josh Chan**

Okay, that's helpful. Thank you. And then just last follow up, I guess, on the on the restructuring, it just--could you kind of just run through the thought process and timing behind that? Because it didn't seem like any business took a leg down in the quarter really. So is it more of a catch up and an acknowledgement that the recovery may take a little bit of time, or I guess, what was the thought process behind doing that now?

**Gary Burnison**

Well, it's never a great process. And it was, for me personally, many, many months in the making, and we tried a lot of different things, but at the end of the day, and you look at the firm's history, and we have a clear and demonstrated track record powering through cycles. And if you look, we have a history of taking actions, unfortunate actions earlier than later.

And we do that so that when there's volatility and dislocation, we can take advantage of that. And that was the reason. And it's one--it's just something that I hate to do. It weighs on my heart. But you know, we have to make sure that we have the financial freedom to be able to invest, because this is a multi-billion dollar opportunity from where we are today.

**Josh Chan**

Great. Appreciate the color there and good luck in the second half of the year.

**Operator**

The next question comes from line of Mark Macron with Baird. Please go ahead.

**Mark Macron**

Hey. Just--thanks for taking my follow ups. Gary, I wanted you to expand, if possible, on your last comments. With regards to you know, the rationale for doing it, I think you've always been very clear and it's very thoughtful in terms of the reduction and it seems like everybody who is with the firm and coming through this on the other side is going to benefit from it. But I'm wondering if you can describe like what--how morale is, how is retention with regards to the consultants that you want to keep? And how--to what extent to do all the consultants appreciate the necessity of doing what you did?

**Gary Burnison**

Well, that's a loaded question. You know, it's our--just based on data. Our turnover is really low relative to a professional services firm. And it was low, actually, even during the Great resignation, relatively speaking. And so that's, you know, when you actually look at the data, and that is the fact is that the turnover has been very, very reasonable levels. You know, these, these decisions are not easy ones.

And, you know, at the end of the day, we have a multibillion dollar opportunity ahead of us. To be able to seize that opportunity, we have to have the financial flexibility, to make investments, to do M&A, to reward our talent, to invest in data and AI and the things that we've talked about, and at the same time, return capital to shareholders. And, you know, again, on an apples to apples basis with the investments that we've made, I think we should be more profitable than we were.

And you know, before the pandemic, we were running apples to apples kind of 12.5, 13 adjusting for the interim mix. And with the investments that we've made, you have to see a return on those investments. And our profitability level now, the guide at 15% reflects a step up in profitability from the pre pandemic levels. And I think that is absolutely warranted, given the investments that we've made in the business.

**Mark Macron**

Great. The digital business, you know, despite the economic softness has been growing. You know, modest, you know, 2.9% year over year growth, but strong sequential growth. Can you



talk a little bit about the areas that you're seeing the greatest success in the digital business? And then you also earlier referenced, you know, bigger projects on the consulting side, and I'm wondering if you can talk a little bit about that. And then just, you know, how should we think about the lumpiness with regards to new business trends as it relates to digital?

### **Gary Burnison**

Yeah, you're going to continue to see lumpiness in digital. We've got some very tough compares. You could land multimillion dollar engagements that hit in a quarter and that's actually what you're seeing. So there is going to be some lumpiness. I mean, that's why we've tried to move this towards, you know, a software as a service business. And as Tiffany said, it's about a third, 36%, something like that, of our new business is around licensing.

You know, we made that move a few years ago. We're going to continue on that. I do think you really do need to look at the consulting and digital businesses together to get a true picture. And you know, the digital business feeds a lot of other--I mean, the digital, you know, part of that feeding our professional development business. So to just look at that on a standalone basis, and it was my decision to break that out several years ago, I mean, you do really need to look at it as an integrated whole.

There's really four things on the digital business that we're focused on. You know, right now, one is around rewards. Two is around sales and service. Three is around assessments, and four is around renewals. And if I added a fifth, it would be around developing an ecosystem channel partners (inaudible). But those are the areas. We have comp data on millions of people, 30 million people around the world (inaudible) should be able to monetize even further.

The sales and service we made an investment right before the pandemic in a company called Miller Heiman. We've got incredible IP there, we got to make sure that that's being digitized and brought into today's reality assessments is the linchpin of the company. You know, we've done 100 million assessments, we got to make sure that we are digitizing that embedding AI into it. We have to focus on renewals, you know, and part of that surround, you know, activating and enabling our learning content, for sure.

### **Robert Rozek**

Hey, Mark, it's Bob. The other thing that you should think about with the new business and digital is as we start to sign up more longer term engagements, you sign up in the past, you do have one year, then another year, then another year. So each sequential year, you'd have that same renewal happening. Whereas now, if we sign up a three year deal, you don't get the renewal in year two, and year three. So you're seeing some of that influence the new business in digital as well, which is a good thing. We want to we want to get this for long term subscriptions.

### **Mark Macron**

And can you talk about like on the digital side with your largest client there, how's that progressing? What are you hearing? How referenceable are they going to be?

**Gary Burnison**

Well, I'd look at just the, again, I'm going to look at the consulting and digital business together. I mean, you know, you look at the shift that's been made in those businesses over several years and you're clearly, clearly saying a move towards more scaled assignments. There's no question about it. And a lot of those are around organizational strategy, which is, you know, around companies rethinking their organization, setting up a new organization, you know, adapting, optimizing, innovating. And the success of that is due not only to the talented people that we have that tip that we have, too. And you know, that's really bearing out.

**Robert Rozek**

And Mark, when you think about our largest clients, you should be thinking about it more from a kind of a one Korn Ferry integrated approach where the real power of the firm comes in when we're--we've got multiple lines of business into a client. So rather than looking at a large client relative to digital or RPO, it's really the whole suite of services that we offer, is what creates the largest accounts that we have.

**Mark Macron**

Yeah, I was just talking about that one contract that, but you know what I'm talking about in terms of how well that's going. So just was curious there. With regards to China, you did mention it's been soft and a big drag. But, Gary, you mentioned it's starting to pick up a little bit or stabilized. Can you expand on that?

**Gary Burnison**

Well, we've seen, you know, a little bit of green shoots over the last couple of months. And I'm not going to sit here and say that two months make a trend. But you know, that's a, you know, that's \$50 million in terms of going back to pre-pandemic off the company's top line. You know, it's not insignificant in terms of the impact that it's had. So I'm not going to sit here and say that two months make a trend, but it has looked better the last couple months.

**Mark Macron**

Great to hear. Thank you very much.

**Operator**

And it appears there's no further questions, Mr. Burnison.

**Gary Burnison**

Okay. I, you know, thank you, everybody. You know, it's time of year where there's a lot of reflection and a lot of thankfulness, despite what's happening in the world today. And I thank you all for listening, taking an interest, and we'll speak to you next time. Thank you, everybody.

**Operator**

Ladies and gentlemen, this conference call will be available for replay one week starting--for one week starting today at 3:00 p.m. Eastern time running through the day September 3--sorry. Running through December 13, 2023, at midnight. You may access the ATT&T executive playback service by dialing 866-207-1041 and entering the access code 9177291.

International participants meant dial 4029700847. Additionally, the replay will be available for playback at the company's website, [www.kornferry.com](http://www.kornferry.com) in the Investor Relations section. That does conclude our conference for today. Thank you for your participation and for using ATT&T conferencing service. You may now disconnect.