Korn Ferry
Third Quarter Fiscal Year 2026 Earnings Release
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Presenters
Gary Burnison, CEO
Robert Rozek, CFO

Q&A Participants
Tobey Sommer - Truist Securities
Trevor Romeo - William Blair
Alex *- Goldman Sachs
Josh Chan - UBS
Mark Marcon - Baird

Operator
Ladies and gentlemen, thank you for standing by and welcome to the Korn Ferry Third Quarter Fiscal Year 2026 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 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 relating to future performance, plans, and goals constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Although the company believes and that 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 with the SEC including the company's annual report for fiscal year 2025 and in the company's soon-to-be-filed quarterly report for the quarter ended January 31, 2026. Also, some of the comments today may reference non-GAAP financial measures such as constant currency amounts, EBITDA, and adjusted EBITDA. Additional information concerning these 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.

With that, I'll turn the call over to Mr. Burnison. Please go ahead, Mr. Burnison.

Gary Burnison
Okay. Thank you, Regina, and thank you, everybody, for joining us. Our outstanding performance during the quarter reflects the ongoing evolution of our firm from One Korn Ferry to We Are Korn Ferry. Fundamentally, our purpose is to enable people and organizations to be more than. As I reflect on all the recent conversations surrounding AI and disintermediation, it strikes me that the question isn't simply will AI take away jobs. The fact is there won't be enough workers. The prism we need to look through is the stark imbalance in labor supply. So, while there are -- there may be fewer jobs compared to the last couple of decades, there will also be a lot less people in the labor force. And let's be clear on what this means. It's not simply that AI will take away your job. It's that those not embracing technology in AI will be left out.

Today, the world is enveloped by unprecedented levels of change, ripple effects from the pandemic, aging demographics, and technological advancement from something out of Star Wars, all of which is converging to exert greater impact on the way people live, work, and consume. For example, birth rates in the U.S. have been falling since the late 1960s. They've essentially been cut by more than half in each year. 10,000 baby boomers are retiring every day. That's 4 million a year for the next several years. Over the next 10 years, labor force participation is forecasted to decline further. And today, it's already lower than pre-COVID levels. As the labor force gets smaller, technology or immigration will need to fill the gap between supply and demand to maintain economic growth, and AI will absolutely play a critical role. And at Korn Ferry, we're at the forefront of working directly with global decision makers who are grappling with these issues as they seek answers to creating and sustaining a high-performing workforce. The outliers of achievement and performance are going to be more in demand, not less in demand. The need for highly skilled, agile talent will only increase. It will be more critical than ever to identify the 20% doing the 80%. Companies must identify, hire, develop, and retain the scarce experienced professionals needed to lead this transformation, which invariably means doing more with less. And when we look at our own business and our clients, it supports this macroeconomic thesis. Internally, we have become far more efficient and productive. Over the last three years, revenue is up, and costs are down. Our revenue per headcount has increased by almost one third. As a result, we are more profitable, and we've grown our margins by more than 300 basis points. And we're continuing to drive a major transformation from One Korn Ferry to We Are Korn Ferry.

What does it mean? Well, it means that we're not five businesses. We're one business with five solutions and 9,000 colleagues, all with a unified mindset, and it begins with client centricity, deepening our solutions with our existing clients to unlock growth. We've got more than 10,000 clients around the world, but 4,500 of those represent 90% of our revenue. And when I look at that set of clients, our penetration is only one and a half or two solutions per client for two thirds of the 4,500 clients. That means there's a lot of runway to deepen the relationship. So, with We Are Korn Ferry, we are taking a top-down and bottom-up systematic process to tap this growth opportunity. Our [inaudible] again outperformed the portfolio, up 9%, contributing 40% of our overall total revenue. Our cross-business referrals are now at a near high of 27% of

our business, and at the top of the house, our work has never been more impactful. Recently, a well-known TV broadcast highlighted seven major CEO transitions over the last few months, and we were involved in six of them. Further reflecting our client centricity, we've won several significant transformation engagements across the globe. A major aerospace and defense company is one of our first end-to-end talent suite customers, utilizing our proprietary data to make better talent decisions across 40,000-plus employees. This is a multiyear talent suite engagement.

For me, talent suite isn't a product. It's money ball for business based on data beyond compare. It gives clients decades of insight of what separates great from good, and it powers the entire firm. At one of the top financial institutions in the world with nearly 100,000 employees, we're supporting a new enterprise-wide talent excellence program, incorporating our world-class assessment capability and leadership accelerator programs. And finally, we're proud to be a founding partner of the LA ’28 Olympic and Paralympic Games, powering the people who power the game. We're not only building their C-suite but also helping them design the organization and hiring the nearly 5,000 people who will perform on the world's most inspiring stage. With that, I will turn it over to Bob Rozek. Bob, go ahead.

Bob Rozek

Great. Thanks, Gary, and good afternoon or good morning. We're very pleased with our third quarter results. This is our fifth consecutive quarter of accelerating year-over-year fee revenue growth, and we continue to deliver earnings growth, driving strong profitability and free cash flow. Our go-to-market approach continues to be intentional and focused on opportunities where we can build broader relationships with clients by selling larger integrated solutions that support their evolving talent issues. Now, what's really impressive is we are doing this in an environment where business conditions and labor markets remain challenged. It is very clear that our strategy is working, and our results demonstrate that we have built a company that is different from others in the industry. We perform differently because we are different.

Now turning to overall company results comparing Q3 of FY '26 to Q3 of FY '25. Our consolidated fee revenue grew 7% to $717 million, again, our fifth consecutive quarter of accelerating year-over-year growth. Earnings continued to grow in line with fee revenue, and profitability remained strong. Adjusted EBITDA grew $9 million or 7.5% to $123 million. Our adjusted EBITDA margin was 17.2%, up 10 basis points, and adjusted diluted earnings per share grew $0.09 or 8% to $1.28. Total company new business excluding RPO grew 11% with both consulting and digital reaching all-time quarterly highs. RPO delivered $54 million of new business in the quarter with 78% coming from new logos and 22% from renewals. Estimated remaining fees under existing contracts at the end of the quarter were 1.85 billion. That's up 11% year-over-year, and we estimate that approximately 60% or about 1.1 billion will be recognized within the next year with the remaining 40% or about 734 million estimated to be recognized beyond the next four quarters. And finally, our capital allocation during the quarter remained balanced. Through the end of the third quarter, we have returned about $113 million to shareholders through combined share repurchases and dividends, and we've invested $64

million back into capital expenditures focused on talent suite productivity tools and other solution and product enhancements.

In a separate announcement last week, our Board has approved a 15% increase in our quarterly cash dividend to $0.55 per share, and that's our seventh dividend increase in the last six years. Our cash flow remains strong, and we are confident in the outlook for our business. In addition to the detailed results found in our posted earnings presentation, here are a few company-wide and solution-specific highlights for the third quarter. You saw fee revenue growth was very broad-based across all solutions. The interim portion of our PS&I solution grew 4%, continuing to benefit from new business referrals, which were a key factor driving our outperformance in an industry that has been challenged for more than 36 months. Our new business referrals and Marquee Diamond Account program continue to be contributors of growth enabled by our We Are Korn Ferry go-to-market initiative. As Gary mentioned, new business referrals accounted for 27.2% of our consolidated fee revenue, and that's up 200 basis points year-over-year and the Marquee Diamond Accounts continued to be strong at 40% of our total fee revenue. Also in the third quarter, subscription and license new business grew 30% year-over-year and accounted for 43% of digital's total new business. Additionally in the third quarter, subscription and license fee revenue grew 8%. And finally, our average hourly bill rates for consulting and interim grew by 2% and 15% respectively, again demonstrating the high value our clients place on these solutions.

Now turning to our regions. Fee revenue in the Americas was up 6% led by growth in executive search and RPO. EMEA fee revenue continued to be strong, growing 13% with double-digit growth in executive search, consulting, digital, and PS&I, and APAC fee revenue declined slightly at 2% with growth in executive search being offset by modest weakness in other solutions. Now turning to our outlook for the fourth quarter of fiscal '26. Assuming no material negative impact from the recent Middle East conflict and no further changes in worldwide geopolitical conditions, economic conditions, financial markets, and foreign exchange rates, we expect fee revenue in the fourth quarter to range from 730 million to 750 million, our adjusted EBITDA margin to range from 17.1% to 17.3%, and our consolidated adjusted diluted earnings per share as well as our GAAP diluted earnings per share to range from $1.34 to $1.40.

Now, in closing, our financial results over the last five quarters demonstrate that our unique combination of foundational assets, expertise, and capabilities truly matter to our clients. Looking to the future, I'm very excited about our opportunities to drive continued top line growth. You heard Gary talk about our top 4,500 clients. With the rollout of talent suite and our We are Korn Ferry initiative, we continue to see significant opportunity to expand those relationships in what we call the green space. That is, horizontal expansion where we bring additional solutions to our clients, vertical expansion where we leverage our strong C-suite relationships and provide solutions at scale to what we call the vital many, and that's down into an organization's professional ranks. We have a great playbook to run from, our Marquee and Diamond Accounts where we have a strong track record of successfully expanding those relationships. I also see further opportunities in our joint go-to-market activities, particularly

between consulting and digital. And as I've said many times before on these calls, I am more convinced than ever that our best is yet to come. With that, we would be glad to answer any questions you may have.

Operator
We will now begin the question-and-answer session. To ask a question, press star then the number one on your telephone keypad. Our first question will come from the line of Tobey Sommer with Truist Securities. Please go ahead.

Tobey Sommer
Thank you. So, markets are certainly reacting to a number of potential outcomes as a result of AI. How do you see AI impacting Korn Ferry?

Gary Burnison
Well, I think it's going to -- at the end of the day, it's going to allow us to drive more efficiency as we've done over the last three years, number one. And number two, where we play -- we're playing at the high end and the high end of the labor force. I mean, take the United States. There's only 25,000 companies that have 1,000 employees or more. And so, when I look at the U.S. labor force today of 171 million and really look through the categories of talent, Korn Ferry and its clients are very much at the high end. And so, I don't really see that high-end labor talent being disintermediated. And so, I believe long term that it's actually going to create more opportunity for us, not just in efficiency and how we deliver services but also in terms of our client solutions and delivery. I mean, we've got a number of engagements where we're using what we have is proprietary AI-ready leadership assessment tool, and we're using that through the talent suite to help companies transform their workforce. So, look, I just look at the numbers in the labor force. And over the last 20 years, the U.S. labor force has created something like 20 million to 25 million jobs. Over the next 10 years, it's estimated to be 5 million. And last year, we produced as a country very, very few jobs. And so, I think you've got this huge imbalance between the demand and supply of labor that either has to get filled through immigration or technology. And I would say it's going to be heavily on technology. So, for me, it's not -- it's not a simple question that AI will take away jobs. It's the people that don't embrace AI, they're going to be left out. So, I -- look, this is early days. And most -- when we talk to most clients, truthfully, they haven't fully figured out how to use AI to drive efficiency. But when I look at the demographic trends, it's quite clear that companies are going to have to do more with less. It's mathematics around demographics.

Tobey Sommer
In that context -- I want to just double click. If we have a higher -- or an increase in unemployment, do you think the company can grow in that kind of environment that typically used to be characterized or would reflect an economic recession and maybe it would or maybe it won't in this -- if AI goes to the nth degree as some are thinking?

Gary Burnison

Well, we're trying -- I mean, this is my 95th earnings call, quarterly earnings call. And many years ago, the company was dependent on one solution, which was executive search, and that was directly tied not only to the stock market with a high correlation but to unemployment and what was happening in the labor force. Today, you've got a much more diversified business with five different solutions, and I think we've demonstrated over the last 36 months -- which I consider a labor recession that there's quarters that one solution is up and another is down. And the thing that's very interesting is when you look at the executive search solution and you think about the labor market over the last 36 months, you would have expected based on historical data going back many years that the executive search solution would actually be down, when, in fact, it's the opposite. And so, I think that tells you part of the story there is around demographics. I mean, clearly, it's around the strategy. There's no doubt about that. But it's also reflective of demographics. It's reflective of post-COVID life, and it's reflective of boards looking at leadership teams and saying, hey, what got you here isn't going to get you there. I think people are making choices about opting out of the labor force because most of those people in the C-suite were leading businesses during COVID. And so, maybe it's work-life balance, but there is something going on here that's interesting. And I look at it and say our clients, the people that are making decisions around us, are truly the outliers of achievement. And I just don't -- I don't look at it and think, oh my God, out of 171 million people in the labor force, 20 million are in management roles. I just don't see that they're going to be wiped out here. We have not disintermediated humanity.

Tobey Sommer
Thank you very much. If I could ask one more, and I'll get back in the queue. With respect to talent suite, do you think that is more likely to have the biggest impact deepening existing relationships, making them stickier somehow, or is it more about expanding into new customer relationships? And I'm sure there's an element of both. But if you had to choose, which way would you go?

Gary Burnison
I think it's the former. The thing where there's incredible -- and we've been working now for -- it's 12 months on We are Korn Ferry. And the crux of it, when you look at it, there's 4,500 clients that represent 90% of our revenue. And when you look at that client base, what you're going to find is that you look at two thirds of them, and we're only doing one and a half or two solutions. So, I look at talent suite as not a digital solution play. I look at it as empowering the entire firm. And ultimately, the goal is to try to infuse Korn Ferry's language of talent in the companies, how they hire, how they design an organization, how they retain, how they pay, how they develop. So, I look at it much broader, but the goal absolutely is a little bit like a Trojan horse to embed the language of client. And then when it comes to the digital solution in talent suite, the reality is you've got -- we've probably got about 6,000 clients on talent suite, something like that. And when you look at that, what you're going to find is that 70% of them are only using one product within talent suite. And so, there's enormous opportunity there. So, for me, it comes down to having a systematic approach on the go-to-market side and having client service teams that are targeting and servicing the world's biggest companies.

Tobey Sommer
Thank you very much.

Operator
Our next question will come from the line of Trevor Romeo with William Blair. Please go ahead.

Trevor Romeo
Hey. Good morning. Thank you for taking the questions. Maybe I'll just follow up on the talent suite discussion. It looked like your fees under contract were up double digits for both consulting and digital. I think your subscription and license fee revenue and the new business also accelerated. So, would you attribute any of that to, I guess, very early returns from talent suite? Is it already having an impact? Or if not, maybe you could speak to what drove that because it seems like a pretty meaningful acceleration for both of those solutions.

Gary Burnison
Yeah. We had a killer couple of months in the quarter of new business. We -- again, the strategy is trying to deepen the relationships, driving client centricity. And I would say that talent suite had a little impact, but not much because we did a soft launch in November, and the harder launch was in January. We converted all of the clients seamlessly. We didn't have any problems. And now we're embarking on a journey to get all of our 2,000 front-of-the-house colleagues to be able to talk to our clients about our -- what I think our data is beyond compare. I really do. And so, I look at it and say it's kind of money ball for business. And we've got 50-plus years knowing how you separate great from good. And I think in an environment going forward where companies are going to have to do more with less, I think this could play a big role in our future. But I don't simply look at it as a digital solution play. It's really connected to everything we do, our RPO solution, executive search solution, professional search solution. It's a foundation for the firm. We've never in the past taken all of our IP and put it in a seamless warehouse where you can go in and do benchmarking on your workforce and all that. So, look, it's early days, and we've rolled out the technology, and now it's getting our front-of-the-house colleagues on a very targeted basis to take this to our client base.

Trevor Romeo
Thanks, Gary. That's encouraging. And then maybe one other talent suite question. Now that you have it in place up and running, in addition to your other sort of tech and AI investments, how do you view Korn Ferry's technology spending, I guess, in total in the next few years, whether that's CapEx or OpEx? Is the ongoing run rate here, do you think going to be higher or lower than you may have seen in the past or the same, I guess?

Gary Burnison
Well, I think Bob can probably address that more. I would just say that, when you look back, we've had a fairly balanced approach to capital deployment. In, call it, the last trailing 15 months or so, I think the bent has been more towards talent suite and CapEx. And obviously,

dividend, look, we just raised the dividend again. I think it's our seventh raise in six years. I think you may see us lean a little bit more heavily into stock buybacks over the next few months. So, there could be a slight change versus, call it, the first nine months of this fiscal year because it was heavily tilted towards technology spend.

Bob Rozek
Yeah, I think that's right, Gary. I think if you -- Trevor, if you look at our CapEx spend, we're probably around $80 million to $85 million run rate currently, and we had anticipated that coming back down to what you would have seen more historically as, say, $60 million, $65 million run rate, and we'll probably see that drop going into our fiscal '27. So, we're in the process of doing our planning for next year right now. And as Gary indicated, it's one of the things that we look at and think about quite a bit is how we allocate capital. And I would say you'll see the CapEx probably drop a bit but maybe lean more heavily, as Gary indicated, into buybacks certainly where -- when you see the market dislocated like it is today.

Trevor Romeo
Yeah. Okay. Thank you both for that. If I could maybe just ask one more on your interim business. I think you talked about the cross referrals driving outperformance there. Obviously, the temp staffing space has been very tough the last several years as you pointed out. So, maybe just what kind of demand trends are you seeing there independent of your cross referrals? Are you seeing maybe a little pickup in conversations in the last few months? And then on the bill rate jumping up to almost 150, anything you'd call out from a mix perspective there?

Gary Burnison
Yeah. It's the Korn Ferry lift. I mean, we're trying to -- we want to compete there at the very high end of talent because of the questions that have been raised around AI and the like. So, we want to be focused on the outliers of achievement. And yes, you look at -- what I've seen in the industry, people have reported they saw a slight uptick sequentially late November, saw that in December, seeing it flow through to January, somewhat flat in February because of the shorter number of days. But yes, we've seen absolutely that go up. It was up 4% in the quarter. That's just the interim part of the business and the bill rates have gone up. And so, the temp penetration rate is still at historic lows. You know that better than I. I look back over the last 25 years, and generally in the workforce, there's been about, in the United States, 2.5 million temp workers. Obviously, the penetration rate has been significantly higher than it has today. I don't think that's going to go away. In fact, you could make the argument that companies are going to need more flex arrangements to deal with one-off projects and the like. So, we're very, very happy with how that solution has done. And the opportunity there, quite candidly, is not only the United States for us but Europe. And we made an investment in an interim solution, in an executive interim solution in Europe going back probably 15, 16 months ago, and that has absolutely outperformed. And one of the reasons why it's outperformed is because how we have integrated not only because there's talented people, but we've also been very, very purposeful on We Are Korn Ferry go-to-market strategy.

Trevor Romeo
All right. Thank you very much.

Operator
Our next question will come from the line of George Tong with Goldman Sachs. Please go ahead.

Alex
Hi. This is Alex [sp] on for George. I wanted to see if you could provide an update on what you're seeing with sales cycles and how client spending behavior may be differing across segments and whether there's been any impact from macro sensitivity.

Gary Burnison
I haven't seen any. The reality is more of the same. I mean the BLS numbers in the United States were obviously not great. They weren't great because of healthcare. But if you just look back over many months, the jobs that have been created were in healthcare or government. So, I mean, to me, it's more of the same. Now, what I can't comment on is the last 10 days or so, and I don't think anybody can. We have not factored that into our guidance. 10 days in, we just -- you just don't know. But I can just tell you the direction of travel for this firm is unbelievable. And I've been here with dot-com crisis, long term credit crisis, Great Recession, COVID, all of that, Russia, Ukraine. I can go on and on and on. The changes in China and the extended lockdowns there. I can go on and on and on. But the reality is, when you look at the direction of travel, this firm is outstanding.

Alex
Great. Thanks --

Bob Rozek
The other thing I would add to that, too, is if you look at the new business in the third quarter Gary mentioned, we had a couple of really good months. The thing that I found very interesting, usually, October and March are high watermarks for new business, and then December is usually one of the slowest months because of the year-end holidays and so on. And we hit an all-time high in new business in October, and we eclipsed that in December this past year, and we saw some very large engagements being signed. In fact, 44% of the consulting new business in the quarter were engagements over $0.5 million. So, as Gary mentioned before, we're playing top of the house. People really value what we bring, and they're struggling to work their way through the somewhat chaotic world that we live in today. And they're only going to do that through their talent, and that's exactly where we come in.

Alex

Yeah. Got it. That's very helpful. And then I want to ask on the digital side, which saw some improvement sequentially but was flat year-over-year on a constant currency basis. So, can you touch on what drove this and how the pivot toward enterprise-oriented sales is progressing?

Gary Burnison
Yeah. I mean, that's something we have to do. We have to continue to look at our own talent, and we have to ensure that all 2,000 of our consultants can have a more enterprise-wide conversation for sure. And when you look at the digital solution only, you're going to find that it's just an increasing percentage is longer-term kind of Software as a Service deals. So, I don't sit there and look at simply revenue. I look at the entire firm and what is it doing in terms of our win-loss rate, which we also carefully monitor and study. And is the backlog -- what is the backlog doing? So, I sit there and say in this environment, am I totally satisfied? No, not satisfied. But we've only been at this with this IP in a common warehouse for a couple of months. I mean, this has not been very long at all.

Alex
Makes sense. Thank you.

Operator
Our next question will come from the line of Josh Chan with UBS. Please go ahead.

Josh Chan
Hi. Good morning, Gary and Bob. I guess on your consulting side of the business --

Bob Rozek
Hey, Josh.

Josh Chan
Hi. This is usually a business that is stronger when the economy is more poor, I guess. And so, could you just talk to the recent strength in this consulting new business? And what are some of the common threads that you're getting from sort of the 0.5 million-plus engagements that Bob kind of alluded to earlier?

Gary Burnison
It's around transformation. It's around org strategy and transformation. That would be the big-ticket theme for those larger engagements. And I read something last night, there was a report that consulting firms in calendar 2025 grew something like 5% or 5.5%. You have to kind of question that a little bit. But I look at our overall firm over the past, call it, 12 months, and I'm saying, hey, we're in line or better, recognizing that part of our business deals with the labor markets, which haven't been exactly fantastic.

Bob Rozek

Hey, Josh. The other thing I would say, too, is if you look at in the consulting business right now, Gary talked about transformation. A lot of companies are looking at their talent and are they ready to be productive in an AI world, and we have solutions that look at AI-ready leaders, AI-ready talent. And that's where you see the assessment and succession having strong year-over-year growth in that quarter, as well.

Josh Chan
Okay. Okay. That's great color. Thank you both. And then maybe a quick question on margin. So, if Korn Ferry continues to grow at the similar revenue growth rates that you're kind of guiding to, what's the right way to think about kind of margin expansion for the company as a whole kind of going forward?

Gary Burnison
I mean, in this investment -- the investment horizon we have right now, we've -- I think what we've said is 16% to 18%. Part of it depends on the M&A execution and -- for example, how much -- if there's more opportunities, which I think there are, around the interim market and the interim solution, that obviously -- that mix change has a big impact on that question. But we also have to make sure that we are making the right investments as a firm, particularly around talent. So, I think for now that over this investment horizon, that's reasonable. But if you look back over the last kind of three years or four years, something like that, this is after the Great Resignation, which probably ended somewhere late '22, early mid-'23. The reality is our headcount per colleague is up almost like 35%. So, we've got a track record of being able to drive client impact, impact the top line, but also be more profitable.

Josh Chan
[Inaudible] Yeah. Thanks for the color, Gary, and congrats on the good results.

Gary Burnison
Thanks, Josh.

Operator
Our next question will come from the line of Mark Marcon with Baird. Please go ahead.

Mark Marcon
Good afternoon. I just wanted to follow up on the last series of questions. Gary, when you're talking about the investment horizon, how long are you thinking in terms of that 16% to 18%? Because I can't help but notice you're increasing your revenue, and then if we go through all the charts, it's like the number of consultants on staff has actually been flat to down, most frequently down. And so, I'm trying to think through like when you think long term and you think about like, hey, we've got 2,000 front-facing consultants, 9,000 colleagues in total, and we're probably in the early stages in terms of implementing AI. I'm just wondering like how -- when you really think about longer term, how efficient can you be? And I know you've got to make some investments in terms of people, but how are you thinking about that longer term?

Gary Burnison
Clients have asked me that question, Mark, as they're looking at their organization. And I'm not -- this comment is not specifically to Korn Ferry, and this is clearly an estimate. But I think if you were to say, look out over five to seven years and given the demographic trends that were -- that we've talked about on this call and the, quote, shrinking labor force, not as many people coming into the labor force, not only in the United States, but other countries, as well. And then the promise -- then the question is, well, how do you fill all that gap? Well, you either do it through immigration or technology. So, given the mathematics around labor force participation and the promise of AI, what I've told clients is if you look out that kind of five years, median of the bell curve, I would expect your labor force to be smaller by, say, 15% for sure. Now, I'm not talking about every company, every industry, every sector. But just generally speaking, the theme would have to be -- as it is for the country of the United States, it would have to be more with less. So, that wouldn't -- that's the advice that I've been giving to clients.

Mark Marcon
Great. And I mean, where would you say you are in terms of harnessing AI in terms of increasing the efficiency? Are you -- is it the first inning? Are we seeing the national anthem? Or are we in the third inning?

Gary Burnison
We've taken the field. Look, the reality [inaudible], I think that many, many, many companies are in the first inning here. But there's enough there, there where you say, okay, I get it. Technology can definitely make you more efficient. And then the question is behavioral change. So, the real question is -- people don't change unless there's a reason to change. And the question for leadership of companies is how do you create that change? How do you get people to truly embrace the ever-evolving technology that's out there. That's really the question. And I think -- look, the reality is I think most people are in the first inning, Mark.

Mark Marcon
Okay. Great. And then with regards to talent suite, can you talk a little bit about like when you're doing these big deals -- and you mentioned the aerospace company with 40,000 employees. When you're pricing this and you're pricing it for complete access to talent suite, how do you price it? How should we think about that sort of lift both in terms of margin and revenue?

Gary Burnison
Yeah. Yeah. Size of company and number -- size of company and number of seats. I mean, that's generally how we do it and is it an existing client of Korn Ferry. So, what we've seen is that, for example, people will ask the question, CEOs will ask the question, is my labor force, quote, AI ready, which a lot of that will come down to agility and dealing with ambiguity. So, then what you would do is go in and assess 5,000, 10,000 people, and we produce an MRI that would say, okay, this is what the thinking style, leadership style of the organization looks like. Based on our

research, this is what a future-ready workforce would look like. And here are the -- here's how you stack up. Here's the gaps and here's a plan towards remediation. And it also depends, too, is what level of consulting is wrapped around that.

Mark Marcon
Got it. And then a question for Bob maybe. With regards to consulting in the third quarter, you had a 5% lift in terms of revenue, but the margins went down by 70 basis points year-over-year, and the headcount is down. What's the underlying reason for those margins to be down? And this was in the context of a great quarter. So, just trying to understand [inaudible].

Bob Rozek
Yeah, it is, Mark. And one of the things is our fee revenues were well above our guidance range. They attract more bonus dollars. So, we had an opportunity to get caught up there on the bonus that we provide for folks, and that put a little bit of downward pressure on the margin in the quarter.

Mark Marcon
Got it. Okay. That's great. And then, Gary, one last one for you, if you'll take it. And I know you -- we're only 10 days in. But generally speaking, like, after all of the various things that you've gone through, what's your expectation in terms of like how long this would have to continue before plans would change or that you'd actually see a meaningful difference just in terms of client behavior?

Gary Burnison
Well, this is just one person -- I mean, one person's view. It's -- I don't think anybody really knows the answer to that. I mean, in the United States, transportation and transportation costs including gas are 17% to 20% of consumer spending. And so, elevated oil prices are not good for consumer spending, which you're already dealing with a K-shaped economy. There's a cost-of-living crisis. So, that's clearly a negative. And to what extent have we opened [inaudible] box, I'm the least qualified person to answer that question, but that's certainly one. Our colleagues in the Middle East, which we have an incredible, incredible business, our colleagues are continuing under very difficult circumstances, much like our colleagues in Ukraine have done throughout this time. They're working from home, taking safety precautions. As of last week, it hasn't materially impacted our delivery of services. But I think you go out -- I think it will be another 90 days or so before you really get line of sight on what all this means beyond oil. I mean beyond oil, what does this really mean?

Mark Marcon
Okay. Great. Thank you very much.

Operator
And it appears there are no further questions at this time, Mr. Burnison.

Gary Burnison
Okay. Thank you all for the questions. I'm incredibly proud of this organization and to be a founding partner, which may seem a ways away of LA ’28, but it's not. And I think that will highlight just the power of our organization for sure. We're excited about that. So, with that, thank you for your questions, and we'll talk to you next time. Bye bye.

Operator
Ladies and gentlemen, this conference call will be available for replay for one week starting today running through the end of the day March 16, 2026, ending at midnight. You may access the echo replay service by dialing 800-770-2030 and entering the access code 3268315 followed by the pound key. Additionally, the replay will be available for playback at the company's website www.kornferry.com in the Investor Relations section. This concludes today's call. Thank you all for joining. You may now disconnect.