

**Korn Ferry**

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**Kwame Yankson:** All right. Good morning, everyone, and welcome. I'm here (ph). I'm Kwame Yankson. I'm in our Business and Technology Services Corporate and Investment Banking practice at Wells Fargo and have the honor to moderate this Q&A with Korn Ferry, a global human capital management and services provider, and a close relationship for us.

So I have here with me Bob Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer; and Mathias Herzog, President of Korn Ferry Digital and the Global Technology practice. So thanks for them for joining us this morning.

Yes, maybe just to kick it off, if you want to extend your intro, but if you can just give us a brief introduction of Korn Ferry for investors that may not know or aren't as familiar with the story and how you've transformed the business over the past five or 10 years? I think that'd be a great way to kick us off this morning.

**Bob Rozek:** Sure, I'll take that. I'm Bob Rozek, by the way. So I'll go back to when I started with Korn Ferry was in February of 2012. At that time, we were about 80%, 85% executive search. Our roots are in executive search. Our current CEO, Gary Burnison, had a strategy when he moved into the CEO role of taking the very strong executive search relationships, building adjacent services around that and using that to sell those services into clients. Over the almost 12 years that I've been there, we've acquired about 17 companies as well as have done a lot of investment back into the firm and the development of IP content and data, and so on.

And as I look at the organization today, executive search represents about 30% of our business from a fee revenue perspective. We've got a suite of solutions today that really touch every aspect of an employee's engagement with his or her employer, starting with what we call org strategy. And when you think about that, it's not necessarily the work that like a Bain or McKinsey would do, where they're setting your business strategy. It's actually stepping in once that is done and helping organizations to execute and implement it through their people.

We have a very strong assessment and succession practice. Obviously, talent acquisition is pretty core to what we do. And then the other two solution areas are leadership and professional development, and then the last one would be Total Rewards. And that one, we're actually -- it's kind of like two businesses. We have one that does executive pay and

governance with Comp Committee chairs, and then the rest of the business would be working with management on various benefit and incentive programs.

I would say today, as I look at the organization, we are extremely well-positioned in terms of what the world is looking for. Everything is all about talent, war for talent, any better talent, different talent, talent with IT skills and so on. We're the only company in the world that has the collection of IP data content and assets that we do. And as I look at it, it's a huge differentiator and it really gives us a great platform as you move forward. And Mathias will talk a little bit more about the stuff at the middle of the firm.

Kwame Yankson: Yes. And I guess maybe with that, Korn Ferry Digital is obviously a very important part of the business. Mathias, it'd be great if you could maybe elaborate on that, how you're bringing together the technology IP, data content that Bob mentioned, to deliver solutions for clients.

Mathias Herzog: Yes, happy to. Obviously a bit biased. I get to lead this part of the business, so I think we have a pretty unique set of assets, IP and data in this business.

So maybe also just by virtue of quick intro, I joined Korn Ferry only about six months ago. I'd came out of a long career in tech, worked with many, many technology organizations, predominantly in the software sector, first as a management consultant then as an operator at Salesforce in a tech unicorn before coming to Korn Ferry. And so, over the last six months, I had the opportunity to really get my arms around, what's in this business. And digital for us today is about 13%, 14% of the overall company revenue. It's essentially our talent products and solutions business, our HR tech, that's where all the IP and the data sits. And we monetize those products, and that IP, that tech, directly selling to clients but also embedding that IP and those products in other parts of the business. So specifically RPO in our talent acquisitions business, but then also consulting.

And so it's organized along very similar lines of what Bob mentioned. We have an assessment business focus. We have a large assessment suite. Over the course of our existence, we've done over 100 million assessments against a set of scientifically-researched success profiles. And that has given us a lot of insights and data, proprietary data sets. We have a large Total Rewards business, where we sell subscription licenses to our clients around pay data to help them build their Total Rewards strategies. And we have a large survey business as well, and a number of other businesses that we have built around proprietary IP and data sets that we've monetized. So it's, from my perspective, a pretty exciting area of Korn Ferry.

Kwame Yankson: Thanks. And you also have mentioned the consulting business, and I know you've acquired into that business and grown it organically over time. Could you maybe talk about how the digital business and consulting are related and, maybe further, how -- the consulting fees, maybe the broader Korn Ferry ecosystem?

Bob Rozek: Sure. You want to start with the first part?

Mathias Herzog: I can start it, yes. So it's quite a synergistic relationship between consulting and digital. And so, from a digital perspective, one angle in which we look at consulting is it's a channel for us. So we have a scaled (ph) consulting business where our management consultants essentially advise clients on their organization design, on their talent strategies. They coach, they assess, they consult on Total Rewards programs. And those advisory engagements, they're powered by the IP in the products and the HR tech that we

have in the digital business, but they also create flow-through for us. So as these consulting engagements are done and delivered, our clients see the power of the IP and the power of the data. And they can then easily flow through into a subscription type of arrangement with us where they continue to subscribe to the products and the proprietary IP that we have.

So in a way, it's an indirect channel for us in digital that powers the direct revenue that we deliver to the firm, for the firm. And then it's also the embedding of the products and the IP that we have that makes the consulting engagements richer, drives more client impact and strengthens the value proposition for consulting. So it's quite synergistic in terms of how these businesses work together.

Bob Rozek:

Yes, I would say that -- a couple of points to highlight. Number one, when we have a consulting engagement and the IP content data is embedded into it and clients sign up for a license, it makes it really sticky. So one of the things we want to do is we want to be embedded into an organization's annual HR cycle. Then it's very sticky. You have a lot of repeat business and activities.

The other thing, Kwame, is I would say that it's not just between consulting and digital. I think the whole of Korn Ferry is very symbiotic in that you think about what we do, it touches every aspect of an employee's engagement with his or her employer. And let's say I'm a search partner and I place you as a CEO, and you come and say, hey, Bob, you know what? I've got this leadership team. I'm not quite sure that it's the right team. I feel like I want to go this way, and they're kind of taking me that way. How do you help me?

And so we would come in. We'd a top team effectiveness. So we'd use our assessment tools to figure out against the norms and the success profiles that we would agree would be right for the way you want to operate the company. We would take a look at that and say, OK, here's the group of folks that fit that success profile. Here's some that fit, but they've got a couple of derailers. So we'll look at our leadership and professional development to help them overcome those derailers. And then you have a group over here, kind of never going to get you there. And so we'll help you find new people, and we can help you get the organization set up, kind of boxes on the page, roles, responsibilities, what the success profiles for each job should look like, layers, spans of control, get all that organized, and then we can come in and put an incentive program in place to drive that team to drive your strategy.

So right there, I just walked across everything we do as an organization in one sentence. And so, when I talked about it being symbiotic, I think our ability to drive top-line synergies through cross-selling activity far exceeds my experience. I grew up at Price Waterhouse as an audit partner, and we -- this is way back when -- we got paid to sell work. And I would sell a tax project, or a consulting or advisory, and it really had nothing to do with the audit. They were pretty disconnected from each other. But here at Korn Ferry, there's so much overlap as you walk across our solution sets that it gives us the ability to have outsized contributions from cross-selling.

Kwame Yankson:

Yes, that's great. I guess it'd be interesting to hear, just giving you all are in the human capital management sector, what are the current trends? We're in a unique macroeconomic environment. What are the current trends and maybe triggers that clients are coming to you in this time looking for you through your data services, IP, et cetera, to help them solve? And how do you go about doing that?

Mathias Herzog: You want to start?

Bob Rozek: Yes. So I think, as I look at the company again as in terms of how we're positioned today, you look at the world we're living in, whether it's change disruption, some level of chaos; for us, that's actually a good thing because clients are always trying to figure out, OK, I'm in this environment. What do I need to do differently? Do I need different skill sets? AI is a big thing. I need people with tech skill sets. All of that sets us up to come in and use our vast knowledge-based IP content data in terms of consulting with our clients to help them work through any -- whether it's a workforce transformation, I need to learn how to grow revenue in a post-COVID environment, my sales force isn't effective anymore. What do I do to change that? So again, as we think about the world we're living in today, we view that positively as an opportunity for us.

Mathias Herzog: Yes. Now maybe just to build on that. So as Bob mentioned, we obviously all know that the macroeconomic uncertainties that are out there, and I think what Korn Ferry has done a great job at is to build a set of capabilities that are evergreen. So what I mean by that is, when there's uncertainty or when there's a downturn, or even when there is growth as organizations get their arms around what do they need to do strategically to position themselves for those economic conditions, it inevitably comes down to it, now I need to execute on that strategy. And to execute strategy, you need people, and you need potentially different people to face different conditions. And that's the business that we're in.

So we're in the people business. It's all about the people. You need people. You need the right people to execute strategy. You need to determine how to get from point A to point B as your workforce needs to change. You need to organize people in the right way. You need to motivate them, incentivize them in the right way. And the capabilities that we have, both in the talent acquisition businesses as well as the consulting businesses, then also powered by the IP and the data that we have cater to that. I mean, they're all architected to deliver to those types of situations.

Kwame Yankson: Sounds good. And Bob, you mentioned AI, and I don't think it'd be a conference in today's environment without talking a little bit about AI. So would love to hear how AI is impacting your business. Is it a disruptor? Is it a differentiator? Is it an accelerator? How are you all leveraging those capabilities?

Bob Rozek: Yes. So when AI came out a number of months ago, we approached it from three perspectives. One is what I really want to take a step back and say does this have the ability to disintermediate anything that we do today; two, boy, this could really be a huge efficiency tool for us; and three, how do we -- because we have, again, an enormous amount of data that's proprietary. How do we protect that from all the bad guys out there?

And as we've gone through the different work streams from a security perspective, we've been pretty buttoned up. We've been pretty buttoned up over time. So, while it's an issue for us that we keep front and center, I'm not losing sleep over it at night.

I think from a disintermediation perspective, based on everything that we've seen today, I would say that we're not concerned about it disintermediating us. And I'll go back to when I first started. LinkedIn was the big thing back then. Everybody said LinkedIn is going to disrupt the whole talent acquisition marketplace. And sitting here 12 years later, and it's a tool. We use it as an efficiency tool to find names, candidates and so on. It's just one of many that we use.

I think the real benefit to AI for us is going to be our ability to use it in the delivery and execution of what we do for clients, how we service those clients. I think there's a long runway in terms of AI and it getting where it needs to be so it's really effective and useful. And in fact, it's kind of a funny story. Our fellow who's leading that effort for us gave me a demonstration of it one time, and he said somebody took an assessment. So he said, gave the assessment to the AI tool and said create a development plan, and the tool did that in, like, 15 minutes. And if we did that manually, that's like a four or five hour exercise.

And so I said to it, OK, now ask it if Bob Rozek is fairly compensated as the CFO of Korn Ferry, and it came back it had no opinion, but it had my base salary, bonus opportunity long-term all wrong, which is interesting because we're a public company. All my stuff is available in a proxy statement. So I think there's a lot of runway to go before those tools are really effective and useful, but that's where we see it impacting our ability to be more effective and efficient in delivery.

Mathias Herzog:

I mean, maybe I'll (inaudible) some adds to that. Personally, I actually -- I like it. I think it has a lot of opportunity for us in a number of ways. So from a client's perspective, I think it's pretty -- I think it's commonly accepted that GenAI is going to change the way people work, how work is performed. That then raises questions around do you have the right people to perform and to do the work in the future, and now you're right back to the people equation, where it's about ways of working, having the right people to perform the work as GenAI alters and changes or provides opportunities to change how work is performed. So I think that's from a outside-in perspective.

From an inside-out perspective, GenAI offers us an opportunity to actually train our LLMs on proprietary data sets. And I think that's a differentiator for us as opposed to relying on Web scraping, which is a lot of what the AI startups are doing. We're doing that too, but we also have proprietary data sets through the IP base and the product-based businesses that I mentioned earlier. And so those are efforts that are underway where we're actively pursuing embedding AI into the product, into our HR tech that we have today.

Bob Rozek:

Yes, I think that's an important point, because it is a differentiator, because we know our data is real. It's factual. We know what the use cases are for it and so on versus companies that don't have that. So they're just scraping the Web, and you go out and you get data that you don't really know whether it's right, wrong or indifferent, if it's accurate or not. So we view that as building the -- having that data, building kind of a moat around our solutions and services because we've got something to validate what we do with the data that we have.

Kwame Yankson:

Yes. And I guess with the solutions, the moat, the data, the IP, your digital business has actually grown quite well as far as subscription-based. I think it's about one-third of revenue within digital right now. Could you maybe elaborate on how you're going to market with that, how your clients are buying more to that, and how overall it's helping maybe your revenue, visibility, etcetera?

Mathias Herzog:

Yes, I can start. Yes, so Kwame, as you mentioned, about a third of the business. the digital business is a subscription. It's licensed business. So we like that a lot because it's a multiyear sticky subscription ARR, and that comes through a variety of products that we have in market. So those are our assessment suite, so clients can subscribe to that. We

have our EdTech, LearnTech business, where essentially our clients get access to learning libraries, learning content. They can subscribe to that. We've productized IP around sales methodology, so we did an acquisition with Miller Heiman a number of years ago. We've productized that IP. That sits on top of Salesforce as a software product, and clients can subscribe to that in a SaaS model, multiyear subscription. So we have a number of offerings in market all around talent, ways of working, methodology that our clients find valuable and sign up for those multiyear subscription engagements.

As we grow the business, the focus is definitely on growing the subscription, the license subscriptions. We think that is important for us for a number of reasons. One is it's very steady, very, very stable. To have multiyear subscriptions in place allows you to upsell. It allows you to cross-sell, and it also allows to attach and wrap around our services, consulting services, advisory services around those kinds of revenue streams.

So that's definitely part of our strategy, obviously grow the digital business but also shift the revenue mix towards more of a subscription ARR-type model.

Bob Rozek: And maybe, Mathias, you could -- not to do your job, Kwame, but you can talk maybe a little bit about the channel partners and the different go-to-market activities that we're experiencing now versus what we're used to.

Mathias Herzog: Yes, in terms of our partner ecosystem? Yes. We think there is a pretty significant opportunity for us there as well. So I talk a lot about the IP and the data that we believe is differentiated. What we're also after is the integration of that IP into our clients' daily human capital decisions. And so, in order to make that happen, we believe that we need to expand our partner ecosystem, our technology partner ecosystem with some of the prominent HCM providers, the platform providers, and then we're also looking to broaden our tech partner ecosystem with the likes of Pluralsight. We announced that partnership just recently where we believe that our IP around job architecture, success profiles, assessments, can help learning technology providers contextualize their content. That's, from our perspective, an important piece, is the contextualization of learning content as opposed to just having everything be self-serve, to really put the learning content into a business objective.

And so there's a lot of opportunity there that we're pursuing to broaden that tech partner ecosystem, teaming up with other product organizations where we believe there's a one-plus-one-equal- three there for our clients.

Kwame Yankson: And Bob, maybe just to comment on capital allocation. Obviously you all have a very strong balance sheet. Again, we're in a unique time. Does that mean maybe you're looking more towards repurchase or M&A? How are you just kind of thinking about the different leverage?

Bob Rozek: Yes. I think we've had a fairly balanced approach. We're a fairly conservative company. We've had a pretty balanced approach to capital allocation over time. When I joined the company, we really weren't buying any stock back. There were no dividends, took a number of tries. We finally convinced the Board to put a program in place to return capital to shareholders.

But if you step back and sort of look at from a flow chart, our first priority is always going to be to put money back into the business, and we really believe deeply in what we're doing. We really believe deeply in our strategy. And so we're always going to go to

the business first, whether that's hiring people or teams doing M&A work, investing capital back into the digital business to help Mathias drive his business strategy. That's always going to be our first area that we look to.

After that, we do generate a lot of cash, and so we know we've got opportunities to return capital to shareholders. We have a dividend. I want to say we put it in place, I think it was back in 2014. Over the past number of years, we've started to increase it annually. I think you'll see increases continue in that dividend. And I used to like to call the buybacks more of kind of the swing vote. So if we don't have M&A activity that looks interesting or promising, and we're not what I would call serial acquirers. I think we're very disciplined. We're not going to buy a company just because we have a cash buildup or just because we haven't bought one in a while. We'll only buy companies when we believe it's the right thing to do. And so if there's no opportunities to do that, then we would look to share repurchases. And I think you'll continue to see us follow that type of an approach, going forward.

Kwame Yankson:

Sounds good. And just maybe on the M&A topic, I know that contingent has been an interesting area of professional development industry. I'm sure Mathias is saying, hey, we need to double down into Korn Ferry Digital. How are you just kind of navigating those priorities, and also this time in the environment where there may be some attractive valuations out there?

Bob Rozek:

Yes. So I think from an M&A perspective, I think you hit the three areas that we would focus on. So we have a leadership and professional development business. And one of the things that's been interesting as that has evolved over time is we have very, very large tech companies that have come to us and said, hey, love your IP, love your content. Your coaching is great. We want you to develop our next level of leadership.

And so they'll outsource. We call it coaching at scale. And so we've got contracts with these organizations that are \$15 million, \$20 million over two or three years to develop their talent. And so obviously, we want to continue to replicate that. We also see that as a potential opportunity to expand into leadership development outsourcing, so everything from the coaching at scale to actually managing different vendors and so on. And there's companies out there that we would be interested in and looking at from an M&A perspective.

I would say, in Exec search, I don't think you'll see us do anything particularly in Exec search. I think what we found over time, it's much more effective and efficient to just hire talent than it would be to buy a company. Total Rewards could be an interesting area for us to invest in in terms of, if you look at the Mathias reference to all the pay data that we have, we've got great density in industrial, maybe not so great in financial services. So we might look to either from an industry perspective or geographic perspective, create better data density through M&A.

Mathias talked a lot about partnerships in digital, and so you're always constantly evaluating, is it better to partner or do we just buy. And so I think over time, from an M&A perspective, you would see us looking to those areas, and then the last would be, Kwame, what you mentioned, we call it interim, so it's contract labor. And really, what we're trying to do there is have a business that mirrors our executive search business. So we're not going down-market. You're not going to see us doing administrative roles or factory roles or anything like that. It would be contract work at the same level as we do professional executive search.

We bought four companies over the last couple of years. Right now, today, on a run rate basis, that business sits at about \$400 million for us. And one of the things that we've thought about is we're really trying to take advantage of some of the major workforce shifts. So people don't want to be tethered to a company for their entire career anymore. They want different experiences. They want to move around. They want to have flexibility. And so that was one of the main drivers in terms of our thinking to get into that.

We also think the market that we're trying to carve out for ourselves is differentiated, and our access into organizations, whether it's through Pro search or Exec search, really gives us a huge advantage in terms of developing that market. So you'll see us continue to look at opportunities in that space, as well.

Kwame Yankson: Sounds good. I know some folks in the audience are looking forward to and excited to ask some questions. This has been great conversation and I think enlightening about the different areas of your business, search, consulting, digital, the subscription business, these very highly visible and profitable businesses, as well. So it's been great. But if anyone has any questions, it'd be great to get those.

Unidentified Participant: So when you mentioned the (inaudible) that you have with your data, you also highlighted in AI and disruption being generally positive forces for you. But as these models -- when you think about AI models and how they apply to how you run your business, and your models just get more and more (inaudible) for the data they're consuming, are you seeing that impact your cost structure at all, or how are you planning for that? I know it adds efficiency (inaudible) the workflow process, but they're also (inaudible) It sounds like you guys have a lot.

Mathias Herzog: Yes, you mean just in terms of cost related to computing power? It's a good question. Not yet. No, not yet.

Unidentified Participant: Are you guys rolling out specific AI modules within your digital product (inaudible)?

Mathias Herzog: Specify the--?

Bob Rozek: --Pricing.

Mathias Herzog: Yes, also great question. So we're not at a point where we're pricing the AI capabilities separately. We're looking at more sort of as embedding the AI in our assessment product and our learning product, into our (inaudible) offerings, which is the productized Miller Heiman methodology. But we haven't gone down the path of pricing those out separately.

Bob Rozek: Yes, I don't think you would see us do that. In fact, one of the things that I've been really focused on with folks is making sure that if you -- I gave the example before of creating that development plan. So if we had whatever, somebody doing for four or five hours, your bill rate's \$100 an hour, you're going to bill \$500. And now they're saying, well, wait a minute, it only takes 15 minutes, so does that mean I get to bill \$15? It's like, no, you've got to think about the value you're delivering to the client and bill for that value. You're billing for the plan. You're not billing for the fact that somebody took five hours, or some software took 15 minutes. You're billing for that plan.



Unidentified Participant: Just one other question. We heard a stat that the average 25- to 34-year-old is (inaudible) years. The 50-year-old (inaudible) tenure at (inaudible) So I think that you started a discussion today and said, hey, (inaudible) is good for (inaudible) business. The other side of that, when you have these consulting situations that are like, hey, can you come in and teach our employees and then teach our executive staff, if we're moving towards the millennial sort of turning over (inaudible) does that cut into your, hey, maybe we don't want to invest as much money in trying to bring these guys in, teach them (inaudible), they're going to spin off in three years or (inaudible).

Bob Rozek: Yes, I don't see it happening. In fact, I find the whole training area to be really interesting. I don't think there's a company in the world that can sit down and, with a level of precision, tell you what they're spending on training and development, because it's so dispersed throughout an organization. And that's one of the opportunities that we see in terms of getting into this leadership development outsource, is going to companies saying, hey, your spending is happening everywhere. You have no idea how effective your training is. To your point, is the training you're providing helping you with retention or not.

So for us, I look at that as well. It's a huge opportunity, because we can go into a company, help them get that spend organized, and then deliver the type of training and have measurable KPIs that would lay up against what their attrition rate is pre- and post- and all that. So I think that's a huge opportunity for us.

Mathias Herzog: Yes, I actually think that's a pretty intellectually challenging question. I think the question in my mind would be what do organizations actually need to do to make sure that there is more loyalty. So the reason why people -- and this really goes to addressing the reasons why people leave, which probably boil down, and this is-- I don't have any scientific evidence for this, full disclaimer, but I would imagine that it pertains to opportunity for personal growth, career mobility, advancement, purpose. And when organizations need to then think about how to address those reasons or address those areas, it's all about how do you provide an attractive value proposition to your employees through targeted advancement opportunities, through targeted learning and growth and mobility types of opportunities.

And this is, again, kind of from my perspective, goes back to you've got to be programmatic about how you design this, which I think, again, provides opportunities for a firm like ours to advise and say, well, how can you help an individual grow? What kind of targeted learning, coaching can you provide to that individual that resonates and also sets up that individual to move into a different role, grow and potentially transition into different roles. And so I think having the IP and the data and the experience to help navigate that is something I think that we can provide.

Kwame Yankson: Well, thanks. I think we're right at our time. So unless there's a closing--.

Bob Rozek: --Yes, let me -- just to close, a couple of things that, as I look at the company today and the opportunity to continue to create value, I think there's things that are probably underappreciated in terms of the firm. I'll talk on a couple of them to you. So we'll grab one.

So first, I think I talked earlier about the ability to cross-sell, right? Today, about 27% or 28% of our revenues are generated from one line of business making a referral to a different line of business and the ease of moving across the organization. I'm not sure if

folks really appreciate or even fully understand how easy it is to do that. So I think that's one.

I think the second thing is, if you look at where we are in the world today, the focus on human capital, I need talent, or how relevant we are, it's unprecedented for us in our corporate existence. And I always thought but this is not, like, our 15 minutes of fame. This is going to be like the first inning of a very long ballgame for us. And again, I'm not sure if folks really appreciate or understand that.

Mathias Herzog: Yes. Yes, and underpinned is, as we mentioned earlier, the IP, the data, the proprietary data that we have, which we obviously monetize in a direct way, selling directly to our clients, but also really embedding that in all the services that we provide, whether that's our RPO offerings, where the products and the tech that we have is embedded, as well as consulting, where there is a lot of synergies between the lines of business.

Bob Rozek: Very good. Thanks, everybody.

Kwame Yankson: Thanks, everyone.