

Company Name: Korn Ferry (KFY)

## **Event: Baird Global Consumer, Technology & Services Conference**

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<<Mark Marcon, Analyst, Baird>>

Good afternoon, everybody. My name is Mark Marcon. I follow Human Capital Technology & Solutions for Baird. With us today, we're very pleased to have Korn Ferry, best known as being one of the largest or the largest executive search firm in the world, but increasingly a broad scale provider of organizational consulting with a broad suite of talent solutions. Most people don't recognize that the company has grown to the point where you have over 10,000 employees full time and really have expanded dramatically over the years in terms of the offerings.

With us today, we're very pleased to have Bob Rozek, who is the CFO. Bob first joined the company back in 2012. Previously had been CFO over at Cushman & Wakefield. Bob, we're very pleased to have you here. We also have Tiffany Louder, here in the front, who is the Director of IR. So thanks a lot for joining us.

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Thanks.

<<Mark Marcon, Analyst, Baird>>

It's always a highlight to have you. I'm going to turn it over to you just to give a brief introduction to the company, and then we can get into the fireside.

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Sure. Yeah. As Mark said, you can look at this big circle here. When I joined back in 2012, the circle was primarily that exec search. We were about \$750 million in fee revenue, and about 85% of that was executive search. Then through a series of acquisitions as well as organic initiatives, we've now grown to a company that's almost \$3 billion in fee revenue. And that executive search bubbles about 30% of our business today. So we're on a journey of evolution. It's been really interesting, a lot of fun, and I look forward to continuing it.

<<Mark Marcon, Analyst, Baird>>

That's great. And it's interesting because I mean, even though you've expanded a lot, particularly when we take a look at some of these areas; you have a lot of room to expand further.

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Oh, we do. Absolutely.

<<Mark Marcon, Analyst, Baird>>

And so, and we'll get into all of that. One of the place we want to start with is just take a look at some of the employment data that's been out there. You guys have a unique look at like what's occurring in the professional as well as the upper end of the market. You also have this RPO division that handles a lot of hiring for a lot of different organizations. People are wondering, hey, does it seem like the economy is getting a little bit softer today? We got the data from ADP, basically showed a little bit of a slowdown. When we take a look at the JOLTS data, openings are down relative to where they were. So it's still a solid labor market, but it seems like it's cooled. How are you guys seeing it?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Yeah. I would say, Mark, what one of the things I do is, I mean, there are obviously a lot of different statistics you can look at out there, right. And then a month later they correct them and so on. I really use that stuff directionally. I look at our new business as a real barometer, whether it's exec search, pro search, RPO, consulting and so on. And as I see what's happening with our new business, and I get a picture across the globe every day, that is really what drives our actions and initiatives that we take. And I would say we talked on our last earnings call that we're seeing stability, and I think we're still at that point today.

<<Mark Marcon, Analyst, Baird>>

It's interesting. We take a look at some of your competitors like Heidrick & Struggles. They've actually shown some signs of improvement. Do you think that there's a little bit of a difference in terms of what we're seeing, broadly speaking, relative to what's occurring at the upper end of the labor market?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

There's probably some of that, yeah, I think there's some of that, because I think if you look at our business, for example, and you look at the moderation that happened in exec search versus professional search, professional search moderated more than executive search did. So I think there is some stratification happening within there. The thing that's interesting about the company that we built, the moderation that I'm talking about is in our talent acquisition area, our consulting business is growing. There was an article in the journal a couple weekends ago, Bain, McKinsey are not bringing on as many partners anymore. Some of the big four firms are delaying start dates. Our consulting business is growing today. Our digital business, same thing.

So we've evolved into something different than just talent acquisition. And our whole thesis has been by doing that, we're going to create a more durable, resilient fee revenue stream, and we're seeing it play out for our very eyes now.

<<Mark Marcon, Analyst, Baird>>

I mean, that's a perfect segue in terms of just on the organizational consulting, there has been a delta between your performance relative to some of the consulting firms that you ended up mentioning. You've been investing in that area for a while. I think it's probably beneficial, number one, just to talk a little bit about the types of consulting that you do.

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Sure.

<<Mark Marcon, Analyst, Baird>>

Because not every. That's one of the questions I always get is like, tell me a little bit more about what exactly they do from a consulting perspective.

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

So there's really four areas, right? So first is what we call organizational strategy. And it's not like a business strategy, like a Bain and McKinsey you would get, but it's the next step. So once they get that business strategy, we built a business that helps companies implement that through their people, right, whether it's job architecture or design, roles, responsibilities, success, profiles, layers and spans of control, all that. And then we have an assessment in succession practice that really came on the map back in 2013. So we had an assessment business ourselves that we have I/O psychologists, PhDs who created all of our science, but they were focused on competencies and experiences.

We bought a company called PDI, and they actually broadened it to look at somebody's traits and drivers. So what makes you up as a person, because it's all really all about fit? And they went deep into an organization. They call it the vital many. So we got organizational strategies, assessment and assessment. We've got learning or leadership and professional development. So we have a lot of content. So a natural synergy is you assess somebody and then you can put them on a development program. And one of the things that's really interesting that our guys in the Think tank are coming up with now is they're actually taking competencies and aligning competencies to business strategies and figuring out which competencies drive which business strategy the most.

And so, as somebody says, here's what we're trying to do strategically, we assess their people and we can show, okay, if you do this or put them in this development program, it's a higher likelihood of driving your strategy. So leadership and professional development. And the last

area is what we call total rewards. So we basically touch every aspect of an employee's engagement with his or her employer across the spectrum.

<<Mark Marcon, Analyst, Baird>>

Can you talk a little bit about how you charge for some of these consulting arrangements and the scope of them? Because some of them are very discrete, finite, and some you've been scaling. So can you talk a little bit about that?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Sure. So we basically, it's like any most other consulting firms, when you get a proposal, you propose in a job and you kind of cost it out based on the labor inputs you think is going to be necessary to deliver it. Our rate per hour is actually pretty high right now. We're averaging somewhere around \$430 to \$435 an hour in our consulting business. And historically, we really got on the map with consulting when we bought the Hay Group, and they were very, very good at selling what I would call point solutions. So I'm Bob, I'm a rewards guy. I'm going to help you with your reward problem. And today what we're doing is we're shifting all that over to more what we call integrated solutions, right.

So I would sit, say I'm a partner at Korn Ferry. I would sit with you and understand what your human capital or business issues are, turn around into the firm and bring together bits and pieces from our core solutionaries into an integrated solution that we would then use to solve your problems.

I would say our average deal size at one point was probably less than \$50,000 in engagement. And today we're somewhere probably north of 200. So we're migrating up the food chain, but we are getting quite a few engagements. Whether it's in digital consulting, RPO is very large, where we're getting multi-year, multi-million dollar engage with the clients now.

<<Mark Marcon, Analyst, Baird>>

That's great. And I mean, you've got a strategy to really tap into your top clients and to provide a full suite of services. Can you talk a little bit about the feeding of the orders and the advantage that you have in terms of having relationships at the C-suite through your executive search consultants and being able to refer these consulting engagements in?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Yeah. So, as Mark said, if you go back all the way to day one, our CEO, Gary, when he and Paul Reilly started the strategy, it literally was looking, because they came from public accounting. They were audit partners, had great relationships, and they sold work in. We looked at our search partners and said, wow, that relationship is so much better, so much stronger, and it's untapped.

So that's what initially drove the strategy, is trying to tap into it and build these adjacencies around it.

Where we are today, the individuals themselves do a great job of bringing all of Korn Ferry to bear. But also, when you think about the solution sets that we have, there's so much connective tissue between them. So if I'm a search partner market, I place you as a CEO, and you and I are talking say, hey, I've got this strategy in mind. It's kind of going this way, and my team's going that way. How do you help me? So we would come in and we would do sort of sit down with you and say, okay, let's establish the norms and culture, everything you want to drive. We'd assess your people, and some would be good, some would be good, but they have derailers. So we develop them, and some are never going to get you there.

So we would help you find new people. We would then help you get yourself organized, right? Boxes on a page, roles, responsibilities, all the things I talked about previously. And then we would finish up by saying, okay, let's put an incentive program in place to help your team drive your strategy.

So right there, I just walked across all of our core solutions in one sentence. And to me, that's how easy it is to cross sell in this business. I mean, I think we have an unbelievable opportunity to drive top line synergies, and even with our more recent acquisitions in the interim business. Right. So if I'm again a search partner and you call me up and say, I lost my CFO, I would come in and say, okay, I can find you one. It's going to take six months, but in the meantime, we can get you an interim person, help bridge that gap. Right. And then when the new person comes in, they leave and go and do another assignment.

<<Mark Marcon, Analyst, Baird>>

That's great. And then what percentage of the consultants in North America and globally would you say are fully engaged in terms of cross selling at this point? Because initially, when you first started the initiative, there were some consultants who were, like, a little hesitant or they just wanted to stay in their lane. But it's evolved.

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Yeah. We've evolved our whole go to market. So initially, when we started out, we were using the search partners on the basis of the relationship I explained earlier. And then what we found is if you put them on a bell curve, you had about 15% that were really good, and you had about 20% that really didn't care. But that's okay because we still have to pay our bills. And you got this big slug in the middle that were okay. They would respond if somebody called, but they weren't necessarily out having the conversation. So we moved down a path of bringing on these global account leaders, right. And today we have about 65 of them. And those are individuals who – that's what they do. They meet with clients, they understand their issues, they come back, they help to architect a solution that we bring out to our client base. So I would say today, in terms of the number of people we have operating like that, it's probably well over 150.

<<Mark Marcon, Analyst, Baird>>

Great.

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

One of the things we're doing for this year coming up is we've now gone and looked at the next layer down, so the next people to advance, and we've picked 90 of them, and we're actually teaming them up with an individual who's really good at that and then putting them through our development courses.

<<Mark Marcon, Analyst, Baird>>

That's terrific. And then can you talk a little bit about digital and the solutions that you offer there. And how should investors understand the digital solutions and which ones are truly on a subscription basis at this point?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Yeah. So the digital businesses, to me, it's one of the things that I think is the most interesting is when it has the ability to have the most impact on our company, I think, on our stock price. And if you think about what we've done on assessments, we've assessed over 100 million executives over time. So we have all that data, right? We have 25 million data points on pay across the globe, industries, geographies, different functional areas, and so on. We've got 12,000 success profiles, again, across the globe. And so having all of that data is great, but if you can't do anything with it, then it's really not worth anything.

So what we're doing right now is we've brought a new person in to lead our digital business, and he's doing two things. One is our assets actually sat on independent platforms, so it's a little bit clunky to use them, you had to kind of like log in, log out, log in, log out. And so he's building one platform, which everything is going to sit on. So from a consumption perspective, if you're a client or you're a consultant using it, it'll be really easy to get in and use that data. Right now, what we're driving our subscription and license business, I mean, it's not small. It's about \$135 million today out of a \$400 million digital business.

And we do a lot of pay database. We give a lot into our leadership and professional development. So people license access to those databases for a one, two, three-year period of time. And even on the assessment front, those are three primary areas today that we license stuff.

<<Mark Marcon, Analyst, Baird>>

And on the subscription side, can you talk a little bit about the pricing model?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Yeah. So it would be similar to what you buy with software. It's so much per seat that you get. It's priced out. And then based on the number of seats in an organization and the period of time which you want to use it over, it would just translate to \$2 million, \$3 million, \$4 million, \$5 million over three or four years.

<<Mark Marcon, Analyst, Baird>>

Great. And I mean, that business has got really high margins relative to the rest. So when we're thinking about that \$400 million revenue business, how big do you think that could ultimately end up being, just the digital part? And you've had some really interesting deals with really large organizations where you've sold some 10-figure deals. Can you just talk a little bit about that?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Yeah. So we have – within digital, the other area that I didn't mention earlier was we bought a company, what's called Aspen companies, but the primary asset was Miller Heiman, which is all about sales methodology, sales effectiveness, incentive programs and so on. And we actually licensed our sales methodology to Salesforce, and they use it internally, which actually creates an interesting opportunity for us from a partnership perspective, right.

We sell to, we buy from and then we sell with. So we're actually starting to learn how to go to market with partners. But I would say the digital business market, if in the next three to four or five years, if that thing isn't at least double, I would be really disappointed. And we have a new person in that has a more of a tech subscription license background. And so I'm really excited about Mathias and what he's able to bring to that business.

<<Mark Marcon, Analyst, Baird>>

That would be fantastic. And then in terms of consulting right now, we're basically running at \$700 million. How big can that portion of the business be like three, four years?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Yeah. I would say if that has to be kind of north of \$1 billion, three or four years from now. I think the biggest issue I see with that business is just, we're subscale. We just need to continue to bring on as the time gets right and things get back to where there's a little bit of sunshine outside, bring on enough bodies to continue to drive that type of growth.

<<Mark Marcon, Analyst, Baird>>

And one of the things you mentioned is you've got this tremendous database with regards to pay for professionals as well as the most senior level executives. What are you seeing in terms of your data just in terms of wage rate increases at the mid- and upper-end?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Yeah. I don't see – we don't see a ton. It's funny because we have our comp committee next week in [indiscernible] (0:17:10) consults with our comp committee. And when they do their analysis, they do a trending factor. So they look at what's in the proxy and then they apply 4% or 5% trend to it. And I always ask them why? Because I don't get annual pay raises for 4% or 5%, right. And you'll – I just don't see a lot of movement in the C Suite level, especially with proxy officers. Down below there was huge wage inflation coming through the pandemic recovery, that's pretty much subsided now. I think we're back to more of a normalized state.

<<Mark Marcon, Analyst, Baird>>

What are you thinking as normalized?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

We're seeing probably, I would say 3% to 5% increases depending on what part of the globe you're in, but on average somewhere in that vicinity.

<<Mark Marcon, Analyst, Baird>>

Okay. Great. And let's talk a little bit about RPO and then professional search on the RPO business. Obviously that boomed for a long period of time, particularly coming out of COVID because first thing that a lot of organizations did when they got into COVID was they fired their internal recruiting department.

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Exactly.

<<Mark Marcon, Analyst, Baird>>

Thinking, hey, we've got no need for recruiters and then we had all the stimulus and business, it was already doing well and then it just exploded. But now we're on the other side of that. How are you thinking about the RPO business?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>



I'm actually pretty excited to see that business come through once we get into again where there's a little bit of sunshine outside. I think there's two things that are impacting that business this year. One is the base has definitely seen some moderation, right, and the good thing about that business is like, exact search is a light switch, it's either on or off. I'm going to do it or I'm not. RPO, we could sign a contract to hire 10,000 people.

<<Mark Marcon, Analyst, Baird>>

Does everybody know what RPO is? Just show of hands who doesn't understand RPO?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

It's a business process outsourcing, so we basically take over your recruiting function and so they may hire us to hire 10,000 people a year. And then you hit a rough patch and instead of doing ten, they're going to do 7,500. So it's more of a dimmer switch that business. I'm excited to see that thing come out the other side, and Tiffany did some analysis last quarter where we went and looked at historical contracts and there's always pluses and minuses. But on average, we do about 106% of the contract value over time. And today if we take where our business is and you just go from that moderate level up to the contract value it's about another \$60 million in revenues annually.

And then obviously, when you go up to the 106%, you would drive more. The other thing that's impacting that business is in FY 2022 and FY 2023. If you looked at our new business, about 70% of it was what we call new logo, so it was new to our company, 30% was renewals. This year for the first three quarters it's kind of flipped it's about 70/30, 65/35 renewals versus new logos. We expect it to flip back the other way. We just happen to be in a period of time. There's not, not like we were losing opportunities it's just how the other...

<<Mark Marcon, Analyst, Baird>>

Your win rate is really high.

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

It's really high, and we have a differentiated solution.

<<Mark Marcon, Analyst, Baird>>

Have a very differentiated solution. Can you talk about, so last year it was, this year it's down a little bit but last year was around \$425 million. If we think about again going out three to four years that business has grown really nicely over time, still a big opportunity, particularly internationally. How big could that business be in three to four years?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

In three of four years, that business should be double. It was growing, remember, prior to pandemic it was growing high teens, low-20s for years in a row, and I expect it would be able to get back to that level.

<<Mark Marcon, Analyst, Baird>>

So, I mean, and that's also a high margin business, relatively?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Yeah. Yeah, it's about, right now it's going at around 14%, 15%. The beauty of that business for us as I said earlier is the revenue stream. It's not on off, it's a dimmer switch, right, so it gives us durability and resilience.

<<Mark Marcon, Analyst, Baird>>

Okay. Then executive search, there are some limits to the growth of that particular market. You're the number one player, but it's a great feeder to a lot of different other areas, but what's a reasonable expectation over three to four years if we take a look at your total executive search business?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Yeah. I look at exec search is more of a share play. Like the executive search market when I joined the company was kind of \$10 billion, \$11 billion, today's \$10 billion, \$11 billion. So it's really all about how much share you have and one of the advantages we have with the company that we've built and the assets that we have, it gives us a competitive advantage in terms of not only retaining our people, but attracting new consultants in.

And when they come in, the organization always come up say, hey, welcome, how can I help? Why did you, could join Korn Ferry? Without exception, they say it's because of your platform. Our clients were asking us to do these things, and at my old firm, we just didn't have the assets to do it, so we couldn't do it. Plus it gives the opportunity to make more money because, right, they're going to do the same number of searches there and here, but they can also sell all these other services, which are going to get paid for.

So that gives us a real competitive advantage. I would look at that business, Mark, as probably maybe a low- to mid-single digit grower, a little bit better than GDP because we're taking share.

<<Mark Marcon, Analyst, Baird>>

And then the last opportunity, the latest area for you to get into is professional search. And that's a little bit of a – that was a little bit of a controversial move, it's different because...

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

You mean the interim portion of pro search?

<<Mark Marcon, Analyst, Baird>>

Right, and just going into that level where it's like, okay, there's some concern about, hey, are you diluting the brand? But on the flip side, whenever you acquire an organization, you're elevating their brand, their positioning, both with candidates as well as clients. So I was wondering if you could talk a little bit about the various acquisitions that you've made in professional and interim search, and how well those have fit, what the learning's have been and how you're thinking about the long-term with that?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Sure. Maybe. Let me start with maybe a little bit of background on why we went down that path. So there's a real secular change happening in the workforce today. People, younger individuals coming out of school and so on don't want to be tethered to a company for their whole career. Like, I got out of college, I started a place waterhouse, I thought I spent my whole career there, right.

So it's very different. We actually have clients coming to us within our consulting organization saying, hey; historically we've been 90% perm, 10% contract. We're thinking about shifting that. Should it be 75/25, 70/30 so companies themselves are thinking along those same lines. So as we talked about it internally, it's like well, this is a huge opportunity. The market is massive, right, and so we decided to move down that path.

What we've done though is the interim business that we're creating. If you were to look at our executive search and professional search in a mirror and just do it on a temp basis, it's the exact same business, right. So we're doing C-Suite, we're doing professional level, a couple of verticals we're focused on finance and accounting, IT, HR, so just trying to stay within those particular verticals but having businesses that look like our legacy search and exec search and pro search businesses.

And again, the example I gave was, if I'm contacted to do a search, I can bring a temp in real easy, put them in place, and then when the new person comes in place, that person moves on and goes to the next assignment.

<<Mark Marcon, Analyst, Baird>>

And talk a little bit about the margins, and what did you, I mean, you made four different acquisitions.

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

We did.

<<Mark Marcon, Analyst, Baird>>

And so can you talk about what you learned from each one and how that's going to shape the forward path in terms of M&A for you?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Yeah. So I mean, the biggest learning was, and those businesses were really different from what we've done historically, right, because you have to, the timing of getting the ask and then filling the request has to be really fast, right. And so that was a bit unique for us. And they have a whole different system because you have to payroll people and so on. So there's a lot of learning that we went through, but by bringing it in and combining it with our professional search business and also educating our executive search, we were able to create enormous synergies.

Like within the first – I would say 1st 18 months, we probably had 850 to 900 new opportunities from people just talking to each other and introducing each other to their clients in their situations. So it's created enormous synergies for us. Where we are right now, I think on the M&A front our CEO, Gary is very disciplined. On M&A, he won't do a deal just for the sake of doing a deal. He looks for three things. It's got to be a strategic aligned. Obviously, the math has to make sense, which for us is kind of easy to do because we're common systems, platforms, processes, everything across the globe, so we're plug and play.

And then the biggest thing is culture, and a lot of the companies that we've bought, Gary has known for a long time. So he wants to make sure that when you bring somebody into Korn Ferry that they're going to say, I don't want to work there and everybody leaves and then you have nothing. So that was a lot of the thinking, plus just taking advantage of those secular changes.

<<Mark Marcon, Analyst, Baird>>

It's obviously a really big market. How much do you want to expand into that market? And I mean, if we take a look at your current revenue run rate in professional search, we're basically looking at \$223 million prior to the – and that's because of the recent softening for that you are almost running at \$300 million?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Yeah.

<<Mark Marcon, Analyst, Baird>>

So how big can that?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

I would say pro search and interim should be within three to five years – \$1 billion business for us. It should be \$1 billion. If you think about the market, Mark, for professional search, right, I said exact search was kind of \$10 billion, \$11 billion. Pro search is about 5x and to Mark's point; we were \$225 million before we did the interim acquisitions. So just, think about the opportunity for growth within that marketplace, it's huge.

<<Mark Marcon, Analyst, Baird>>

And I would imagine you'd be the preferred buyer for a lot of these organizations because they can obviously see what the, the potential synergies are?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

And to your point, when people come into our organization and you talk to them, everybody always tells me, man, I can't believe the access that you guys have. I never would have got that meeting if it weren't for your search partner or your consulting partner, whatever.

<<Mark Marcon, Analyst, Baird>>

We only have 1 minute and 50 seconds left, so I just want to. You've done a great job in terms of taking the margin profile up since you joined the company. And obviously, Gary's been a huge support supporter and all of your division heads have been big supporters. But when we think about the – well, sometimes they want more.

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Yeah, exactly. I'd say no, they don't get so much support.

<<Mark Marcon, Analyst, Baird>>

Yeah. But you've done a great job in terms of the discipline there. Can you talk a little bit about, okay; you've achieved this year's margin targets. How are you thinking about margin targets from a longer-term perspective?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Yeah. So our longer-term margin targets are 16% and 18%. Now as we look at that though, if digital does what we think it can do, it could give us the ability to go beyond that. We've taken out about a third of our real estate costs. I've taken about 60% of our, what we call business development, travel costs out and our headcount today. So if I go back to the quarter before the pandemic hit, we did \$515 million of fee revenue with about 9,000 people, today we're about \$700 million with 9,200 people. So that's a 31% increase in productivity.

I think the next leg for us and things that we're looking at is how do we take AI and drive it into our business to drive more efficiencies. And I wouldn't necessarily – I don't necessarily think about that as a cost play because as I said before, our issue in consulting is just scale. And so if I can free up capacity, we've got a ton of backlog sitting there and I can take that capacity and use it to drive revenue growth.

<<Mark Marcon, Analyst, Baird>>

Great. And then lastly, let's talk about capital allocation. How do you think about that? You ended up – you've got a dividend, been an active buyback program. How are you thinking about that? Particularly when we think, I mean, we add-up all the revenue numbers that you're talking about in terms of three to four years, right? Company is going to be significantly larger, margin targets 16% to 19% potentially if digital really takes off. You put that together, the stock is pretty darn cheap relative to what the earnings power is. How are you thinking about buybacks, capital allocation, M&A versus the buyback?

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Yeah. So right now, our preference is to put money back in the company. We really believe deeply in our strategy, and so that's going to be our first priority. Obviously, we generate a lot of cash, and so you hit a point of diminishing returns, and so we put a dividend in place. We actually did a big increase back in Q2 because we benchmarked ourselves against other employment industry and we felt our yield was too low, so we bumped that up.

We'll continue to do annual increases on the dividend. And then the stock buyback we did in 2022 and 2023, about \$100 million a year, this year was a little bit less. We were cautious in Q1, Q2 we couldn't buy back because we had MNPI because of the restructure. But I would envision us somewhere around \$100 million, and if we have M&A may go down a little, if we don't, it may go up a little bit.

<<Mark Marcon, Analyst, Baird>>

Great. Unfortunately, we're out of time. Please join me in thanking Bob for a terrific discussion.

<<Robert Rozek, Chief Financial Officer, Executive Vice President and Chief Corporate Officer>>

Thank you.