Korn Ferry
Second Quarter Fiscal Year 2025 Conference Call
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Presenters
Gary Burnison, Chief Executive Officer
Bob Rozek, Chief Financial Officer & Chief Corporate Officer
Gregg Kvochak, Senior VP of Finance, Treasury, Tax & Investor Relations
Tiffany Louder, Vice President, Investor Relations

Q&A Participants
Melissa McMahon – William Blair
Jasper Bibb – Truist Securities
George Tong – Goldman Sach Group, Inc.
Josh Chan – UBS Investment Bank
Mark Marcon – Robert W. Baird

Operator
Ladies and gentlemen, thank you for standing by, and welcome to the Korn Ferry Second Quarter Fiscal Year 2025 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 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 the 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 2024 and in the company's soon to be filed quarterly report for the quarter ended October 31, 2024.

Also, some of the comments today may reference non-GAAP financial measures such as constant currency amounts, EBITDA and adjusted EBITDA. Additional information concerning measures, including reconciliations to the most directly comparable GAAP financial measure 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, Leah. Good afternoon, everybody. Thank you for joining us and season’s screenings. The team is going to get into the results in more detail but, overall, I would say our execution has been outstanding. Earnings and profitability increased year-over-year and sequentially the margin over--the EBITDA margin over 17% is our sixth consecutive quarter of profitability improvement, and the diversification of our business was evident again in the quarter.

Stability in our talent acquisition business, Digital new business trends improving and steady performance in Consulting, and we also continue to invest. For example, over the last several quarters, we've made significant investments to productize our IP and proprietary data assets, including the $100 million assessments we have 10,000 success profiles, rewards data on 28 million people covering 30,000 organizations. And all of that enables our clients to maximize their talent and organizational performance at scale.

And part of that investment was reimagining and developing a new HR integrated software platform, the Korn Ferry Talent Suite, which we launched in the quarter and reflects our commitment to invest in and expand our highly differentiated IP and products. The talent suite brings together all of our talent management capabilities, our assessment data, development data, reward solutions allowing our clients to license our decades of expertise, proprietary insights and data-driven intelligence via subscription agreements to power their decisions.

The move is pivotal for all parts of our organization, a connected approach with stronger market presence and actually more impactful solutions. And we also made an investment in the quarter that I'm really excited about, Trilogy International, which substantially expands our Interim professional offerings to EMEA and North America. With its Digital and technology focus, Trilogy operates at the forefront of change in a large addressable market for us.

We're also continuing to focus on our marquee and regional account strategy. That represents 38% of our portfolio, and almost all of our marquee lines use at least three of our service offerings.
And finally, it's our own people strategy with global colleagues who continue to operate at high performance levels, while we also attract and develop additional talent required to actualize our strategy.

And finally, for any organization, the journey begins with the why. And for Korn Ferry, the why is to enable people and organizations to be more than.

I'm joined today by Tiffany, Gregg and Bob, and I'll have them get into a little bit more detail here then we'd be happy to, obviously, take your questions.

Bob, over to you.

Bob Rozek
Great. Thanks, Gary. Good afternoon, good morning. As Gary said, we're pleased with our results for the second quarter of FY '25. We continue to carefully guide our business through this period of uncertainty, managing what we can control and delivering improvements in profitability for now six consecutive quarters.

In short, we've continued to successfully execute our strategic plan, capitalizing on our unique solution sets while focusing on cost discipline and operating productivity, which has positioned our business with much greater capacity for investment and growth, going forward.

As I said, our adjusted EBITDA margin has now increased for six consecutive quarters and is up 340 basis points, year-over-year, as bill rates have remained strong and employee productivity continues to improve. Our Interim bill rates grew year-over-year by 11%, and our Consulting bill rate was steady at almost $420 an hour.

Our overall productivity, as measured by fee revenue per employee, is now 35% higher than pre-pandemic levels.

Our top line growth trends continue to show early signs of improvement with second quarter consolidated fee revenue of about $674 million with all lines of business showing sequential growth or stability. Consolidated new business growth also improved in the second quarter and was down less than 1% year-over-year, but up 3%, sequentially.

New business for Executive Search and Digital were strong in the second quarter, up 4% and 11% year-over-year, respectively.

We also continue to effectively deploy capital and it includes a return of capital to shareholders. It's a priority for us. In the second quarter, we repurchased $33 million of stock, or about 456,000 shares. And in addition, we paid a quarterly dividend of $0.37 per share.

Now we remain confident that we can maintain our current level of profitability while investing in both consultant additions, as well as the capital investments targeted at capturing future growth that Gary referred to.

Now let me return the call back over to Gregg, who can take us through some of the overall company financial highlights.

Gregg Kvochak
Okay. Thanks, Bob. Consolidated fee revenue in the second quarter of fiscal '25 was down 4% year-over-year, but flat sequentially, stabilizing at $674 million.

By line of business, Consulting fee revenue was down 6% year-over-year and flat sequentially, while Digital was down 4% year-over-year, but up 5% sequentially, driven by, in part, by strong new business in the second quarter.

Our Permanent Placement Talent Acquisition Solutions continued to show signs of stability in the second quarter. Executive Search fee revenue grew 1%, year-over-year. RPO fee revenue was essentially flat year-over-year, while permanent placement Professional Search stabilized at down 6% year-over-year and was essentially sequentially flat. Market demand for our Professional Interim Services remain challenging in the second quarter, in line with overall industry trends.

Interim fee revenue in the second quarter was down approximately 17% year-over-year, but flat, sequentially. Consolidated new business growth trends improved in the second quarter. Excluding RPO, new business in the second quarter was down only 1% year-over-year, compared to down 3% year-over-year in the first quarter of fiscal '25.

New business growth was mixed by line of business and strongest for Digital and executive search, which were up year-over-year by 11% and 4%, respectively. Consulting new business was stable and down 3% year-over-year, compared to down 3% year-over-year in the first quarter of fiscal '25, while Professional Search and Interim new business was down 12% year-over-year in the second quarter, improving from down 14% year-over-year in the first quarter of fiscal '25.

Like fee revenue, year-over-year new business growth trends in the second quarter for Permanent Placement, Professional Search were better than for Interim Solutions with both stable, measured sequentially.

New business in the second quarter for RPO was strong with $101 million of new awards, which includes $41 million of renewals and extensions and $60 million of new logo assignments.

Earnings and profitability continued to grow in the second quarter, driven by both greater consultant and execution staff productivity and disciplined cost management, across all lines of business.

Consolidated adjusted EBITDA in the second quarter grew $18 million or 19% year-over-year, with adjusted EBITDA margin improving for the sixth consecutive quarter to 17.4%. Adjusted fully diluted earnings per share in the second quarter were $1.21, up $0.24 or 25% year-over-year. Fully diluted earnings per share measured by GAAP were $1.14 for the second quarter.

Our investable cash position at the end of the second quarter was $537 million, which was up $73 million, or 16% year-over-year.

Through the end of the second quarter of fiscal '25, we deployed $129 million of cash investing $25 million in capital expenditures, using $9 million for debt service and returning $95 million to shareholders, $39 million in dividends and $56 million repurchasing approximately 808,000 shares.

With that, I'll turn the call back over to Tiffany to review our operating segments in more detail.

Tiffany Louder
Thanks, Craig. Starting with KF Digital, fee revenue in the second quarter was $93 million, which was down 4% year-over-year, but up 5%, sequentially. The Digital, Subscription and License fee revenue was $35 million in the second quarter, which was up 7% year-over-year and accounted for approximately 38% of fee revenue for the quarter.

New business for KF Digital was strong at $105 million, which was up 11% year-over-year with $45 million, or about 43% coming from subscription and licenses. The overall pipeline for Digital remains healthy as we head into the second half of the fiscal year.

Digital adjusted EBITDA margin was also strong in the quarter, growing to 31.4%, driven by sequential fee revenue growth and disciplined cost management.

For Consulting, fee revenue in the second quarter was $167 million, which was down 6% year-over-year and flat, sequentially, primarily due to a growing mix of longer, larger $1 million-plus contracts in our backlog and the overall slower delivery of backlog assignment, driven by our clients. Consulting's average bill rate was $419 per hour in the second quarter, which was up 1%, year-over-year.

Adjusted EBITDA margin remained sequentially stable for Consulting and increased 120 basis points year-over-year to 17.5%, driven by higher bill rate, greater consultant and execution staff productivity and disciplined cost management.

Total fee revenue for Professional Search and Interim in the second quarter was $121 million, down $17 million or 12% year-over-year and flat, quarter sequential.

Fee revenue trends for Permanent Placement Professional Search continued to stabilize in the second quarter with fee revenue contracting 5% year-over-year but flat, sequentially.

Consultant productivity in the second quarter for Professional Search also increased to $690,000 annualized and was up 21%, measured year-over-year. Interim fee revenue was $68 million for the second quarter, which was down 14% to $14 million or 17% year-over-year, in line with the broader industry, but essentially flat, sequentially.

Despite the industry slowdown in demand, Interim's average bill rate increased to $140 per hour, which is up 11% from one year ago and is reflective of the added value of being part of the broader Korn Ferry ecosystem.

Adjusted EBITDA margin for Professional Search and Interim improved, both sequentially and year-over-year, to 22.5% in the second quarter, driven primarily by disciplined cost management.

Moving on to Recruitment Process Outsourcing. Fee revenue in the second quarter for RPO remained stable at $88 million, which was flat year-over-year and quarter sequential. Total revenue under contract at the end of the second quarter was $659 million, with approximately $296 million, or 45% to be recognized within the next four quarters.

In the second quarter, we saw a return to historical experience with 60% of the $101 million in new business coming in the form of new clients. The adjusted EBITDA margin for RPO improved again to 14.7% in the second quarter, driven by both greater execution staff productivity and disciplined cost management.

Finally, global fee revenue in the second quarter for Executive Search was $206 million, up 2% year-over-year and essentially flat, quarter sequential. The number of new Executive Search assignments increased 2% year-over-year and by 1% sequentially to $15.67, while Consultant productivity remained steady at $1.5 million per Consultant, annualized. Adjusted EBITDA and adjusted EBITDA margin were both up materially, up 29% and 27%, respectively, year-over-year.

I will now turn the call back over to Bob to discuss our outlook for the third quarter of fiscal '25.

Bob Rozek

Great. Thanks, Tiffany. Over the last several quarters, our new business trends have been a little choppy month-to-month within a quarter, but we have seen the overall quarterly trends stabilizing. Exiting the second quarter and entering the third, new business was up 1% year-over-year in October; in November, despite having fewer billing days was essentially in line with expectations. December is the most seasonally weak month of our fiscal year. And this year, given that the year-end holidays are all in the middle of the week, our guidance reflects fewer working days for our consultants and clients than you would see with normal seasonality.

Assuming no further changes in worldwide geopolitical conditions, economic conditions, financial markets and foreign exchange rates, we expect fee revenue in the third quarter of fiscal '25 to range from $635 million to $665 million. Our adjusted EBITDA margin to remain approximately 16.5% to 17.3%, and our consolidated adjusted diluted earnings per share to range from $1.06 to $1.18.

Finally, we expect our GAAP diluted earnings per share in the first quarter to range from $1.02 to $1.16.

In closing, we're tremendously proud of what we've accomplished for the first half of fiscal '25. While we have the U.S. presidential election behind us, there are still many contingencies in the current operating environment. As I started, we will continue to deal with these uncertainties proficiently and continue to manage what is in our control.

Our unique portfolio of human capital solutions built on our unique science-backed services and solutions makes us the leading organizational consultancy, helping companies navigate the war for the best fit for purpose and fit for organization talent, positioning us for continued success, going forward.

And I'll conclude with my normal remarks, as I always say, we're at the beginning of what is going to be a very long ball game, and I truly believe our best is yet to come.

With that, we would be glad to answer any questions you may have.

Operator
Ladies and gentlemen, if you would like to ask a question, you may press “1”, then “0” on your telephone keypad. You will hear acknowledgment that your line has been placed in queue.

One moment, please, for the first question. And we go to Trevor Romeo with William Blair. Please go ahead.

Melissa McMahon
Hi, team. This is Melissa McMahon on for Trevor Romeo, today. Thanks so much for taking my questions. Now I know that you typically see a seasonal decline in the third quarter, but it'd be great to get any more color on your expectations for revenue trends, by segment, that you're

including in guidance for the third quarter. And additionally, just how much revenue you are assuming in guidance from the Trilogy acquisition. Thanks.

Gary Burnison
Well, as we get into larger addressable markets, particularly Consulting and Interim, I do think you're going to see the seasonality, the cyclicality deepen for sure. I look at this quarter for the third quarter, and we think there's probably the way that the holidays fall, as Bob pointed out, including Chinese New Year, we think we're going to be short three to four days, which probably translates into $30 million, $40 million revenue impact in the quarter. So, that's reflected in our guidance.

And when you look at the last couple of years, between the second and the third quarter, you would see that we would be down 5% or 6%. And that's, clearly, what we're reflecting in the guidance and it reflects the additional days we think we're going to lose in the quarter, particularly in the Interim and Consulting businesses.

In terms of Trilogy, we think that it'll contribute in this quarter maybe USD 14 million, USD 15 million, something like that for the quarter. And we're really excited about that, and we'll see what it brings for the year.

Melissa McMahon
Great. I really appreciate that color. And then maybe just to piggyback off of that, it'd be great if you could talk about the Trilogy acquisition and the opportunity that you see for Interim business in Europe. And just kind of what gave you the confidence to invest more in Interim when you're still seeing a bit of a challenging revenue trend in that area.

Gary Burnison
Yeah, for sure. Well, at some point, that's going to turn. I mean, this has been a very unusual cycle. I mean we're--the temp penetration rate has been declining for, you could call it, 32 months. I mean, it's something that we haven't seen in history. And it's been a cycle where it's been slow to fire, slow to hire and companies have cut back on temporary workers for a long, long time. Ordinarily, you'd have seen a recession. But this labor market has been quite unusual, over the last two years.

Having said that, I don't think there's a structural change, and it is a large addressable market. And we've shown that it is highly synergistic to the Korn Ferry brand and what we can do with it. And for us, it's about continued earnings trajectory. And this is a large addressable market. And we really didn't have a presence in EMEA to speak of. Trilogy gives us a foundation to tap, which is arguably the largest piece of that Interim market in EMEA.

So, we've been looking for to three years around a partner that we could use in EMEA, and we found one, and I'm really happy with the caliber of people we have and what we can do with that business in the long term.

Bob Rozek
And Gary, this is Bob. The only thing I would add to that is that we're focused on executing our strategy, and we're going to do that through good times, bad times, over the cycles are. So I don't think you would see us stop or start what we're doing in terms of strategy execution, given the cycles that we're in, which is continuing to drive what we deeply believe in.

Melissa McMahon
Great. Thank you both so much.

Operator
Next, we go to the line of Tobey Sommer with Truist Securities.

Jasper Bibb
Sorry, I think I was on mute here. This is Jasper Bibb on for Tobey. Thanks for taking our questions. Just wanted to clarify some of the earlier comments. It sounds like the message is that demand is generally stable. And if I adjust for the working day headwind you talked about in the Trilogy contribution, it seems like revenue is going to be effectively sequentially flat or maybe down a few million, sequentially, on a comparable basis in the guide. Is that a fair representation of what you're seeing in the next couple of months?

Gary Burnison
Yeah, I really think the way Thanksgiving fell, like it fell at the end of November. It usually doesn't; it falls in the third week. You've got the Chinese New Year. It's going to impact us and it's going to impact our Consulting and Interim business.

The thing that I would point out, though, that I think is a green shoot is the RPO business. And as Tiffany said, in the quarter, the flash number of new business was similar to what we've seen, but we did see a shift to more new logos, and it was about 60% or so. And in November, it was actually even better. We saw like $70 million of new business in November in RPO and all of that, essentially, was new logos. So, that's an interesting green shoot as we head into calendar '25.

Jasper Bibb
All right. That makes sense. And then could you maybe refresh us on the correlation between M&A and some of your demand streams and if--how do you think things picking up on that front in '25 would potentially benefit your business?

Gary Burnison
We tend--if you look back historically at what we've done, we've got a 20-year track record here. we would say that there's a good piece of it that is inorganic. And we would tend to think, going forward, that 40% or so is going to come from inorganic means. And we'll see what that

M&A market looks like in '25. We're very systematic. We want to make sure that there's a culture fit and that the organization is synergistic with the brand.

And we continue to carefully evaluate investment opportunities. I don't think there's going to be any dramatic shift there. But we do have a very, very robust capital base that we can tap into.

Jasper Bibb
Got it. Thanks for taking the questions.

Operator
Next, we go to George Tong with Goldman Sachs. Please go ahead.

George Tong
Hi, thanks. Good morning. I wanted to dive a little bit into the Digital business. On a constant currency basis, revenues in the quarter fell 5%, year over year. I believe this is the first quarter we saw a year-over-year decline in a while, like over a year. So, can you talk a little bit about some of the trends you're seeing on the demand side? What could be driving that inflection to a year-over-year decline and when you might expect that decline to inflect to positive growth?

Gary Burnison
Well, the new business was very strong. So number one, I would point to that. It was up 11%, or so. In the quarter, the impact on revenue is because of our move towards subscription agreements. And I think in the quarter, the new business, it was something like 43% of that new business was subscription agreements. And when is that going to inflect? I don't think it will inflect this next quarter, but it absolutely will.

And what we've done is we are completing a pretty big investment on an integrated technology platform that we call the Korn Ferry Talent Suite. And that's going to enable our clients to seamlessly access all of the different products that we have under there from KFSS to KF Listen to KF Sell.

And the other thing that we're working on is to make sure that that is very easily integrated into a couple of the largest HCM providers in the world. So, we're continuing to work on that, to make sure that it is easily integrated into HCM providers.

We're also looking at partnerships. We continue to work on that. And there's two of the largest in the world that we're very active with, one on the go-to-market side and then one in terms of integrating our IP into what they're offering. So, it won't happen this quarter. But I have like total confidence.

We've got a new leadership team in place. We've made significant investments, CapEx investments into the technology platform. The new business was good in the quarter. We've got a tough compare in the third quarter, compared to a year ago. So I'm pretty bullish on that, but it's--this is a marathon; it's not a race. But so far, I feel very, very good about it.

Bob Rozek
George, this is Bob. If you remember when we were at your conference, was one of Mathias' growth levers that he talked about was the single of sort of single sign-on platform, as Gary is referring to. And I think we're probably looking at that being completed somewhere in the next kind of up to 12-month period of time. It's a pretty big lift what he's undertaking, but it is essential to do everything that Gary just laid out.

George Tong
Got it. Yeah, that's very helpful color. And then on the Consulting side, you mentioned you're seeing larger contracts. And as a result, slightly longer implementation times and that perhaps contributed to the 7% decline you saw on a constant currency basis, year-over-year. Can you elaborate a little bit more about that on that, when might you expect the sort of the larger contract impact to begin to taper away? And similar to the Digital side, how would you characterize the demand environment for Consulting?

Gary Burnison
Well, I think the environment overall, look, it's been a couple of years now of companies. Growth has become elusive, and everybody's kind of followed the same playbook, of cutting costs right? I mean, the cost of living for all people in the United States has gone up 40%. And at the beginning of coming out of the pandemic, companies were raising prices, shrinking packaging, and volume was going down.

There's only so long you can raise prices. And so, companies have been brutal on the cost side. And that's the environment that we've been operating in for a couple of years. There has been a significant change in our--the mix of our Consulting business that was absolutely by design.

I think it's still going to take a couple of quarters for us to really--to get to some normalized level. But just to give you some numbers behind that, when you look at our backlog today for deals over $1 million, that's 33% of the backlog. And when you look at the new business in this last quarter compared to two years ago, new business for deals over $1 million, that doubled.

And so, that's been a big, big change in that Consulting business. And the reality is that, given the macro environment, that companies have been slower on drawing down commitments that they've made for obvious reasons. And the bigger engagements, those definitely take longer to implement. So you're seeing that in the numbers for sure, as well as the macro environment.

Bob Rozek
Gary, it's Bob. George, the one bit of color I would add to that is we're not seeing clients cancel what we would call breakage on those deals. It's just a slower pace of consumption.

George Tong
Got it. Very helpful color. Thank you.

Operator
Next, we go to the line of Josh Chan with UBS. Please go ahead.

Josh Chan
Hi, thank you for taking my questions. Getting for a minute here. Do you think that the business is impacted by kind of a less labor turnover, meaning people are staying in their seats for longer and there's less perhaps need for some of the services that you're offering, or do you think that it's not as related to this labor turnover slowdown?

Gary Burnison
Well, look, this is a very unusual cycle. So you dial the clock back almost five years now and the world stopped. And people slashed payroll and all of that, and then there was this--the great resignation and massive hiring. This is definitely a different cycle. By most labor market indications, as you know, there would have been a so-called recession, by now.

To see the temp penetration rate fall for basically 32 quarters is pretty unusual. To look at the U.S. and see how they've revised the labor numbers a couple of different times, one time bringing it down by 800,000 jobs. The U.S. is probably, I would think it's going to produce 100,000, 150,000 jobs a month for the next few months. I don't really see that changing.

Peak 65 is hitting where the number of people in the United States that are turning 65 is going to contribute to 4 million or 5 million people leaving the workforce. So, I think that's positive. It's been--look, it's been two years of a very unusual environment. There is, on the part of our clients, some optimism, particularly in the United States going into 2025. And--but if you can just see it in every company's results.

The good news for us is when I look at the RPO business, that was green shoots that we've seen recently, and in the industrial business, which is a big part of Korn Ferry, it's almost 30%. We've seen positive trends in the industrial sector for us, which is also good. I don't think there's any real structural changes that would have a negative impact on our business. I think it's been more of the same.

Josh Chan
Yes, and it is definitely really unusual. I want to kind of follow up on the green shoots comment because ,I guess, what do you make of the green shoots happening in the RPO business first because normally, you would think that maybe Interim will see it first, but that's actually the most challenged business, now. So how do you--what do you make of kind of everything being turned upside down a little bit?

Gary Burnison
Yeah, well, what we saw in the great resignation is the hardest. The hardest positions to fill were actually recruiters. And so you saw a massive increase in hiring everywhere and including in shared service areas, such as HR. And what happened was, I called it a couple of years ago, labor hoarding. And that's exactly what happened was when there were less mandates to fill, something that I hadn't predicted was the outsourcing business.

You would think in an environment like that where people are cost conscious, the outsourcing business would actually flourish. Well, it didn't, and companies took the reduced mandates, and they filled it with internal HR staff.

Well, the reality is, I think there's only so long you can do that in this slow to fire, slow to hire environment. And so I think that's positive.

I think in this quarter, the temp market is not going to change, particularly given what I think is three or four less business days. But at some point, that is going to change. I don't see a structural change in the use of fractional executives, Interim executives. I just don't--I don't see that.

So yeah, I do think it is good. And we'll see if that continues. We're pretty bullish on that, what we can do with the RPO pipeline that we have, right now.

Bob Rozek
And Gary, this is Bob, again. Just a little bit of color I would add to that. Josh, you heard Gary talking in the past about investing into what we see as large opportunities in the health care market. And that's what we're seeing in the month of November in RPO is expansion into that vertical.

Josh Chan
Great. Yeah, thank you both for the color and good luck in the third quarter.

Operator
And our final question comes from Mark Marcon with Baird. Please go ahead.

Mark Marcon
Yeah, good morning and happy holidays. Wondering if you can talk a little bit more about a couple of different dynamics. One, Bob and the whole team, you've done a great job in terms of keeping the profitability up. I'm wondering if you can talk a little bit about some of the sources of the margin improvement, particularly in the areas where you've seen revenue declines.

So if I take a look, as an example, at Professional Search and Interim, I think it's really a neat trick that you've been able to improve the profitability on an absolute basis, while revenue is down. And I'm just wondering, what are some of the sources that's driving your ability to do that? And to what extent are you--is it back-office functions, relative to front office functions? Or is it efficiency in terms of travel and real estate and things of that nature?

Gary Burnison
Well, it's all of the above, but it's clearly the travel, real estate, but we made a very conscious decision well over a year ago that we wanted--the environment, as it's played out, is exactly what I thought a year ago, September, not a couple of months ago, but 14, 15 months ago.
And we made a decision that we would focus on profitability.

And so, we made some tough decisions a year ago, and we pivoted the portfolio towards more profitable work. And you see it in the mix. You see it in the--for example, the rate per hour on the Interim side. It's gone up to like $140 an hour. Now the Trilogy will bring that down for sure, given that a large part of that, almost all of it is in EMEA.

So that will come down in the third quarter because of the different compensation levels. But candidly, it's because of decisions we've made and also trying to pivot those businesses really to penetrate our marquee and regional accounts. So it's been to--what you're seeing right now are decisions that we made 15 months ago, for sure. No question about it.

Bob Rozek
And Mark, this is Bob. The other thing I would add to remember, as we buy these businesses, their EBITDA margins are kind of mid-to high single digit. And again, our company has been built to be plug and play. And so as we integrate these businesses in, we're able to shed costs as well as--and that contributes I mean, it's not a huge driver, but it does contribute to our ability to create more earnings in that business.

Mark Marcon
Right. I was just wondering if it's related to, primarily, the things we talked about in terms of the shedding some costs, particularly in terms of the back office functions and to what extent it may end up being producers that you decide to--that aren't at the levels that you want them to be or they're basically targeting areas that you don't--you're not as interested in.

Gary Burnison
Yeah, I would say two thirds is, like in the quarter we brought on, across the entire platform, almost 70 front office consultants, across all of Korn Ferry. But when you look at the consultant count and everything, it'll appear like it's down or flat. So we're actively managing the business, actively managing the workforce. So honestly, I think the real estate and the travel is a very, very, very, very small piece of it.

And as Bob said, the back office for sure, in things that we integrate. But that's also--you're not talking about much money. I think really two thirds of it is around the people and the strategy and where we allocate those resources towards which clients.

Bob Rozek
As we come out of the pandemic recovery, one of the things that we're doing a much better job at nowadays is rebalancing our workforce, making sure we've got resources where the client demand needs are. And that's been something we've been at for a number of years now, just proactively managing it, and you're seeing some of that in our increased productivity.

Mark Marcon
Yeah, I mean, it really stands out. I was also just wondering, and I'm not trying to--I mean, there's no way anybody is going to criticize the margin improvement. That's been spectacular. The one thing I was wondering about is, are you seeing the same lift that you would have expected in terms of--on the Interim side in terms of clients being more responsive because now whether it's Lucas or whichever, or Patina, they're under the Korn Ferry brand and, therefore, they can command a higher level of retention, both in terms of clients as well as recruits? Or was that--is that not as powerful?

Gary Burnison
No. It's very powerful, Mark. It's very powerful. And we're starting to see it even with our most recent investment that I'm really excited about with Trilogy. Absolutely, you're absolutely seeing that. And the level of, I don't use the term cross sales, but when I look at that across referrals, it's, I mean, you're talking hundreds of engagements that have resulted from the platform of Korn Ferry. In a market, let's face it, that staffing market is down--look at all the competitors, you pick it, but it could be anywhere down from 15% to 20%.

And you look at the RPO market, and it's a market where you look at competitive landscape, that thing was down 20% to 30%. So it's been a really brutal environment for a couple of years. And we have to pivot towards growth. We have to pivot towards increasing earnings and we see a larger addressable market that's synergistic. And when those colleagues join us, there is that lift that you're talking about. That is true.

Bob Rozek
And Mark, just one more bit of color on that. I would focus on the hourly rate. I mean, that's part of, that's driven by being part of our ecosystem, right? It was $126 last year; $140, this year.

Mark Marcon
Really impressive. That part is really clear. And I've been, Gary and Bob, I think you know, it's like I cover all of these companies, and I clearly see that and have been living it. And this has clearly been a very different environment than during the last 30 years that I’ve covered the space.

So, okay, and then on the Consulting side, can you just talk a little bit about the new business trends? Because I hear you when you talk about the larger engagements and those take longer to unfold. But how does that impact the new business trends in terms of the decline being a little bit greater on a constant currency basis?

And are there any particular practices that you're seeing some softness in? Like, for example, if we take a look at the DE&I practice, I would imagine that that's probably a little bit softer than it was, previously. Just anything that you can pinpoint to there? And when would you expect to start seeing an inflection on the Consulting side?

Gary Burnison
I don't think it'll happen this next quarter, Mark. I think you're going to see--I think you'll see a decline for sure, particularly given the seasonality, which I really do believe is three to four extra days, just the way things are falling. You're right. You're absolutely right on the DE&I. We've seen a big, big fall there. I mean back from the back half of 2020 and 2021, you're talking, annually, probably $50 million at least decline in that business.

We are continuing to see good progress on the leadership development front. I can think of one engagement that it could be $30 million, $40 million for us, leadership development assignment, transforming an entire workforce. And we can only move as fast as that client wants to move. And so, we have in sitting in backlog that kind of revenue potential, but that's a multiyear assignment. And that thing is moving slower than I would have thought, a year ago.

So I think that the mix in terms of larger engagements is a change for us, and we have to keep working on the leverage model, as well. We have to make sure that, that is a little bit more optimal than what it is today. And then we're working on that.

Mark Marcon
Great. And then can you--Gary, you started off by talking about the new talent suite and bringing together. Can you just add more color in terms of like from a client perspective, what they would see. And then how you think that ends up impacting the business just in terms of revenue and margins?

Gary Burnison
I think the biggest thing is what we've heard is they want to be able to have that IP and those products. We have separate products and people were paying, per drink, per item, off the menu. And that was a problem. And then the other thing that we heard is that our IP and those stand-alone products, people need to be able to order, make one order off the menu and be able to choose between the appetizer and dessert and the entrée; they weren't able to do that.

We're changing that, and that's what this is all about. And then the second piece is that it's integrated into, arguably, the two biggest HCM providers. And we're working very hard on one of them to make sure it's totally integrated. And we think we'll get that done. It'll probably be the third quarter or so of calendar 2025. It takes some time. But those are the two big--that's the two biggest practical changes that clients will see.

Mark Marcon
And so, would you be able to go to this solution and--or to whatever the user interface is. And then--would you still be buying per the drink for the individual solution, or would you basically have an annual subscription for all of the solutions?

Gary Burnison
We hope it's the latter, Mark. That's where we're headed. We hope it's the latter. We're not there yet, though. That's the ambition.

Mark Marcon
Okay, great. And then, Gary, you've been through lots of different cycles and elections. How do you think the recent change in the U.S. is going to end up impacting things? I think most people are assuming that it's going to be a positive in terms of animal spirits and unleashing of the regulatory burdens, but I'm wondering how you see it.

Gary Burnison
Yeah, I think that's probably true, although that will take a couple of years to actually see it. I think the bigger problem is cost of living. And there's not a lot of room to maneuver here because you've got--you're losing $2 trillion a year; you've got a $38 trillion debt load. I just don't think there is a lot of maneuverability.

So I'm looking at it and saying, probably over the next two quarters, I just don't see things materially changing. In the labor market, I just don't see it. I don't think there's that level of maneuverability. But I do think that there is some, what I'm hearing, there is optimism around the "regulatory burden. " But I think to see the impact of that, I think, is a couple of years out.

Mark Marcon
Okay. Great. Appreciate all the comments. And congrats in terms of the margins. That's fantastic.

Gary Burnison
Thanks, Mark.

Operator
We have no further questions. Mr. Burnison.

Gary Burnison
Okay. Leah, listen, season’s greetings, happy holidays. I'm incredibly proud of our organization and our colleagues and I think, at the end of the day, and I think we've demonstrated this in a rough environment over almost 24 months, it results in a Korn Ferry, which is less cyclical, more balanced and I think it provides for sustainable success.

So with that, I'll conclude. Happy Holidays, everybody. Talk to you next time.

Operator

Ladies and gentlemen, this conference will be available for replay for one week starting today at 2:00 p.m. Eastern Time, running through the day of December 12, 2024, ending at midnight. You may access the AT&T Executive Playback service by dialing 866-207-1041 and enter the access code 2522280. International participants may dial (402) 970-0847.

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