Korn Ferry
Third Quarter Fiscal Year 2025 Earnings Release
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<u>Presenters</u>
Gary Burnison, CEO
Bob Rozek, CFO, Executive Vice President, and COO

<u>Q&A Participants</u>
Trevor Romeo – William Blair
George Tong – Goldman Sachs
Mark Marcon – Robert W. Baird
Tyler Barishaw – Truist Securities
Karan Singhania – UBS

Operator
Ladies and gentlemen, thank you for standing by, and welcome to the Korn Ferry third quarter fiscal year 2025 conference call. At this time, all participants are in 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 a number of risks and uncertainties, which are beyond the company's control. Additional information concerning such risks and uncertainties can be found in the release relating to this presentation and in the periodic and other reports filed by the company with the SEC, including the company's annual report for fiscal year 2024 and the company's soon to be filed quarterly report for the quarter ended January 31, 2025.

Also, some of the comments made today may reference non-GAAP financial measures such as constant currency amounts, EBITDA, and adjusted EBITDA. Additional information concerning these measures, including reconciliations to the most directly comparable GAAP financial 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. Thanks, Rob [sp], and good afternoon. Thanks for joining us. The team is going to get into our results in more detail, but overall, our execution has been outstanding. Korn Ferry drives our clients' organizational performance, and we continue to see demand for organizational and workforce transformations that are larger in scale and scope. In the quarter, we won significant transformation engagements, including a global energy company spanning 60,000 employees and wide-reaching leadership programs covering thousands of employees at one of the world's largest employers as well as at a leading global insurer.

These engagements are meant to drive strategic transformation and [inaudible] large post-merger integration solutions at a number of global household brands. These are just to name a few but clearly illustrate the breadth and scale of today's Korn Ferry and demonstrate the power of our business and the strength of our diversification. We do enable people and organizations to be more than. Clearly, the macroeconomic environment for consulting services has been less than ideal for the last eight quarters. But when one examines the durability of our consolidated revenue, it is very clear that our strategy is definitely working. The broadness of our solutions counterbalance each other, providing a durable growth foundation for tomorrow, not to mention the higher levels of profitability and balanced approach to capital allocation.

And we are again raising our dividend to shareholders. This diversification was evident once again during the quarter with total [technical difficulty] driven by the Americas and EMEA. When one taps Google Earth, tomorrow's macro environment will be in circle by a [technical difficulty] requiring companies to reimagine and reskill their workforce, employ, develop, promote, and retain talent as well as embrace technologies that bridge that labor imbalance, all of which presents tremendous opportunity for Korn Ferry.

Our strategy has indeed taken hold. We are purposefully aligning our capabilities in larger addressable markets. As a firm, we are now more versatile provider of wide-ranging organizational and talent solutions. This evolution has changed the fundamental composition and scale of our business as we drive more sustainable, large-scale client engagements. Proof positive, our marquee and diamond accounts now represent 39% of our portfolio, and nearly all of our marquee clients are benefiting from at least three of our solution areas.

The breadth, depth, and scale of our firm expertise and offerings puts us in a category of one, and we are well positioned for the future. We are firm driving opportunity through a team-based client management approach, yielding substantial client engagements, an organization with an immense cache of IP and insights, a brand that has incredible license operating at the highest level of global organizations as we enable people and organizations to be more than. In a business that has grown in current and adjacent verticals, further reducing our overall volatility and generating more predictable, visible, and recurring revenue, validating the confidence we have in our business and our positive outlook for future earnings and cash flow. We will increase our quarterly dividend to 30%, which is the sixth increase in our dividend in the last five years. We are well on our way to becoming the undisputed leader empowering organizational performance for [technical difficulty]. By steering into the turn, we've aligned our business strategy, operations, and talent to drive performance and deliver meaningful impact and measurable results for our clients. With that, I'll now turn it over to Bob.

Bob Rozek
Okay. Good morning. Good afternoon, everybody. We are pleased with our results for the third quarter, which exceeded our expectations and really demonstrate the power of integrating our rich and unique IP data and content into solutions that drive organizational performance through talent. The unique value our firm provides is really realized when we align and collaborate, when we show up as, and we are Korn Ferry. In the third quarter, we continue to see a positive inflection in executive search and RPO growth, and our profitability remained strong with year-over-year growth in adjusted EBITDA margins in all solutions.

Now turning to company-wide highlights. Fee revenue in the third quarter was $669 million. That's a 2% year-over-year increase at constant currency. Our earnings and profitability continue to grow. Adjusted EBITDA increased 13% year-over-year to $114 million. Adjusted EBITDA margin increased by an impressive 190 basis points year-over-year to 17.1%, and adjusted EPS increased 11% year-over-year to $1.19. As Gary discussed, total company new business grew 13% year-over-year at constant currency, and that included $210 million of RPO new business, of which 65% was generated from new logos or new clients, which is really important to fuel future growth.

Excluding RPO, new business in the third quarter was up 1% at constant currency with particular strength in EMEA. We continue to diligently execute our go-to market activities. Marquee and diamond accounts remained strong, very strong at 39% of our total consolidated fee revenue. Our cross-solution referrals also held strong at 25% of total consolidated fee revenue. And we continue to see success with the integration of our recent interim acquisitions, achieving now close to 1,100 cross referrals into or from interim since our first acquisition in 2021. As we signaled in our Q2 earnings call, during Q3, we began to ramp up our investment hiring, bringing on almost 25 new fee earners in the quarter. Last, we continued our balanced approach to capital allocation. During the third quarter, we invested back into the business, spending approximately $45 million on the Trilogy acquisition. We also used about $18 million on share repurchases, and we paid $19 million in dividends. Year-to-date, we have repurchased slightly over 1 million shares, or about 2% of our outstanding share count, and returned $133 million to shareholders through both repurchases and dividends. And as Gary mentioned earlier, we are increasing our quarterly dividend by 30% and, as he said, the sixth dividend increased in the last five years.

Now let me turn to some of the highlights by solution area. Starting with consulting. Our new business was $187 million. That’s up 2% at constant currency. Our engagements greater than

500,000, those are our larger engagements, represented approximately 41% of new business in the third quarter, and that's up from 32% last year third quarter. Our hourly bill rate climbed 5% year-over-year to $461 per hour, and profitability remained strong with an adjusted EBITDA margin of 17.7%. And that's up 100 basis points year-over-year. Fee revenue for Digital was $91 million. That's up 3% in constant currency with 39% of total fee revenue generated from subscription and licenses, and that compares to about 36% a year ago. Profitability remained strong there, as well, with an adjusted EBITDA margin of 31.3%, and that's up 100 basis points year-over-year. Executive search fee revenue grew 4% at constant currency to $205 million, with growth in three of the four regions, most notably in North America.

Our consultant productivity increased 7% year-over-year to approximately 1.5 million annualized per consultant, and profitability was strong with an adjusted EBITDA margin of 25%, up 320 basis points year-over-year. Professional search and interim new business and fee revenue continued to stabilize and were flat year-over-year at constant currency. Our interim average hourly bill rate and permanent placement consultant productivity remained strong at $129 per hour and $650,000 annualized per consultant, respectively. Profitability was also strong with an adjusted EBITDA margin of 21%, and that's up 280 basis points year-over-year. Finally, RPO fee revenue grew 6% to 85 million in the third quarter. Fee revenue under contract accelerated sharply higher to $752 million, and about 42% of that is estimated to be recognized in the next four quarters. RPO profitability was also strong with an adjusted EBITDA margin of 15%, and that's up 360 basis points year-over-year. To summarize, we're encouraged by our third quarter results and expect this momentum to carry into the fourth quarter.

Turning to our outlook for the fourth quarter of fiscal '25. Assuming no further changes in worldwide geopolitical conditions, economic conditions, financial markets, and foreign exchange rates, we expect fee revenue in the fourth quarter of fiscal '25 will range from $680 million to $700 million, our adjusted EBITDA margin to remain approximately 16.8% to 17%, Our consolidated adjusted diluted earnings per share range from $1.22 to $1.30, and our GAAP diluted earnings per share to range from $1.20 to $1.28. Now let me end the way we began. We have been and will continue to operate in an uncertain macroeconomic environment. As always, we'll continue to be focused on operating excellence, and based on the results of our third quarter and our fourth quarter outlook, it is very clear that our strategy is working. As I've said in the past, I truly believe our best days lie ahead of us. With that, we would be glad to answer any questions you may have.

Operator
Thank you. We will now begin the question-and-answer session. If you would like to ask a question, please press star one on your telephone keypad to raise your hand and join the queue. If you’d like to withdraw your question, simply press star one again. Your first question comes from the line of Trevor Romeo from William Blair. Your line is open.

Trevor Romeo

Hi. Thanks so much for taking the questions. Thanks for all the detail in the results and the commentary to the team. Just wanted to first touch on sort of margins and productivity. I think a lot of the productivity or revenue per consultant metrics across your segments are up quite nicely. I know you've been making some investments in technology tools and such, and you recently started ramping up hiring again. But what are some of the areas where you've seen the most success driving productivity for a lot of your businesses? And how much room do you think you'd have to further increase productivity without seeing an uptick in near-term market or macro demand?

Gary Burnison
Well, I think there's definitely opportunity to improve productivity. We made a conscious decision going back now a couple of years that we would purposely pivot. We saw the economic environment that was on the horizon, and we made decisions to pivot to a more profitable type work. And you just see it across the board. You see it in, for example, the rate per hour on both our consulting business -- our consulting solution and our interim solution. The consulting solution, the rate per hour is up to $461 an hour. I mean, that was $300 an hour three or so years ago. In the interim business, we're staying at the high end, which is $129 an hour this last quarter. And when you look at our productivity, we're producing probably 35%, 40% more revenue than we did right before the pandemic with the same number of employees. And we made a conscious decision to manage the talent that we have in the company. And you'll see that, for example, in our PS&I solution, the number of fee earners, client-facing consultants that we have there is probably down 50% or so, 40% from where it was three years ago. So, we think -- we still think we have room to go even if the environment stays as it is.

Bob Rozek
Hey, Trevor. This is Bob. The other thing I would say is, just in terms of looking forward, we continue to stay very close to where AI -- Gen AI is going, the direction it's heading in. And so, as that continues to evolve, become more reliable and so on, we do expect to get more productivity into the delivery of our services. Kind of hard to quantify at this very moment but we do believe that there's more there.

Trevor Romeo
Great. Thanks, Bob and Gary. And then for my follow-up, I wanted to touch on RPO I guess. Could you help us understand the growth of the new business, which again is really, really nice in the quarter. Is it mostly -- is it competitive takeaways? Is it clients that haven't used RPO before that are now kind of looking to outsource, or are you kind of starting to see some increases in underlying hiring at your clients?

Gary Burnison
Well, it's a combination of all of that. Two-thirds of the new business was new logos. A lot of it was around marquee and diamond accounts that we purposely targeted and been working on for quite some time. A good part of it was from healthcare and, to some extent, life sciences.

And so, it's all of those things combined. And I think the broader outlook here that is extremely positive for us is that there is a significant supply and demand imbalance that is coming over the next several years. And you look at it at major economies around the world, and the hard cold truth is there's going to be less people coming into the workforce. And take the US economy over the last five years. Nonfarm payroll has only increased by 7 million or so over five years. And so, what that means is people -- companies are going to have to make sure that they are reskilling their workforce, that they're retaining the workforce, that they're identifying the 20% that does the 80%, let alone the world in which we live today, which growth is elusive. So, I think all of those things point to significant opportunity for us.

Trevor Romeo
Great. Thanks so much.

Operator
Your next question comes from the line of George Tong from Goldman Sachs. Your line is open.

George Tong
Hi. Thanks. Good morning. Your digital new business trends inflected from 10% growth last quarter to an 8% decline in constant currency this quarter. Can you talk a little bit about what drove the decline in digital?

Gary Burnison
Yeah. It's -- quarter-to-quarter you're going to see ebbs and flows. I mean, a year ago in the quarter, we had some significant -- it's a tough compare. We had some significant deals that companies were licensing our comp database, and they were picking up several countries at a time. And that led to a pretty robust compare to a year ago. But when you step back and look at it, it's been very, very stable in an environment that, again, has been less than ideal for a good eight quarters here. So, that's the specific reason. It was on the licensing of the compensation database. But overall, it's been pretty stable in a tough environment over the last eight quarters.

George Tong
Got it. That's helpful. And then we're seeing real-time changes in the macro outlook given potential headwinds from tariff policies. What are you hearing from clients during this elevated period of uncertainty? And do you expect hiring activity to pull back given economic uncertainty?

Gary Burnison
There's always uncertainty. It's just clouded in the illusion of certainty. I do not think that that is going to pull back. I think the reality is, when you look at Peak 65 and you consider that over the next three years or so, at least in the United States, and it would hold true for other countries around the world -- the US, you're going to lose probably 4 million, 5 million executives that are turning 65 a year. And I think the other thing is that, when you look at the C-

suite, the people that are in the C-suite were probably leading an organization through COVID, so from darkness to light at a very, very tough time. And then you had the great resignation, and you had the pent-up demand. And then you've got -- you saw companies raise prices, volumes were down, packaging got shrunk. And now there's real price in elasticity. It's hard for companies to raise prices. And so, you've got a real cost of living crisis. And so, you look at those people that are -- that led organizations through a very, very difficult time in humanity. And you probably have a lot of people saying, is this -- do I want something else in life. And I think we're actually seeing that play out. When you look at our -- the search solution, the executive search solution and you look at RPO, you're seeing -- we've seen significant uptick over the last three months or so. And I think it points to all of those factors combined.

And as I said, when you look out longer term, there's a significant imbalance between the supply and demand of labor. And as Bob said -- he's right, how does that imbalance become rectified? Well, you look back in history, and the way it gets rectified is through technology. And so, that's definitely a good part of the answer. But the other piece is that companies are going to have to do different things with their workforce because there's just not the supply of talent coming in. And so, I think it's all of those things combined. And I just I don't think -- the uncertainty that you've seen, it's been over the last couple of weeks. And that's -- people are negotiating. That's what's happening here. But I don't really see that -- I don't see that pulling back. I could be wrong, but it would be hard for me to believe that.

George Tong
Got it. That's very helpful color. Thank you.

Operator
Your next question comes from the line of Mark Marcon from Baird. Your line is open.

Mark Marcon
Hey. Good morning or good afternoon depending on where you are physically. Congrats on the good results. Gary, you started out your discussion, which unfortunately was a little bit muffled. I don't know if you had a bad connection at the time or not -- discussing some of the big engagements that you've been recently winning. And I was just wondering if you could elaborate a little bit further with regards to the size, scope of those big engagements? And how you were able to get those who you ended up winning them from? Like if -- who else was part of the RFPs? Just to a little -- elaborate how you're moving up the food chain in terms of being a thought leader.

Gary Burnison
Yeah. It's definitely happened. And sorry for that. Hopefully, it's not muffled now. It's really a decision that we made several years ago that we would -- we want to get into more high-impact engagements. And so, what all of those engagements have in common is the environment today where growth is elusive. And so, the question for leaders is around transformation and how do you transform your workforce given a shift in strategic direction.

And so, those engagements are scaled engagements, I mean, where you're touching literally thousands of employees at a particular client. And they involve largely either organizational design or far-reaching leadership development programs -- professional development programs on how companies can shift their mindset and their employees' skill set to match a new strategic direction for the company. And today, when you look at the consulting backlog, it's actually at an all-time high. And I think it's about 40% of that backlog are engagements that are definitely over 500,000 and actually could be over $1 million.

Now, there's good news, bad news. The good news is that those are predictable, durable revenue sources. The more challenging news is that it takes multi-quarters to implement. And so, you're seeing in our results that the new business in consulting is significantly ahead of revenue. And so, you're seeing a shift towards much more impactful assignments that take longer to implement. Then you're also seeing less quasi discretionary engagements than we've seen say three or four years ago. And the primary reason for that is that companies don't have a lot of pricing power, and they're cutting cost. And they've been cutting costs now for seven or eight quarters. And so, anything that was somewhat discretionary is being put on hold.

Bob Rozek
And, Mark, the only thing I would add to the discretionary engagement that Gary is referring to are generally the ones that are smaller, which convert to revenue much quicker. So, you kind of get the dynamics of the larger engagements, which convert over a longer period of time, a little bit compounded by the smaller discretionary stuff not happening.

Mark Marcon
Got it. And then, Gary, again, I apologize. I did not -- was not able to hear very much of what you said upfront. Could you just -- you mentioned a 60,000 employee global energy company. Like what sort of projects are you doing for those companies? And you mentioned a global insurer. You mentioned another company that was a really large employer. But again, it was muffled, so I didn't quite get all of that. But what exactly are you doing? And who did you beat out in order to get those engagements?

Gary Burnison
Many times, it's the large strategy firms that we're winning work against. Sometimes, it's the Big Four. And -- for example, the energy company, it's really around success profiles. And given a strategic change in direction and transformation, going in and saying, based on that strategy, what type of talent do you need, and how is that talent different from the talent that you have in-house. Part of it is licensing our IP. We have like 12,000 success profiles, and that's really what it entails. And the other two that I mentioned were also around strategic transformation. And those are large, large far-reaching leadership programs on moving a workforce from what you were to what you want to be. And so, it is, in an essence, reskilling our workforce, but it starts with the company's strategic direction for sure.

Mark Marcon

And are the decision makers -- in terms of who they're going with when they're selecting you versus McKinsey or BCG or a Bain or against one of the Big Four, who's the decision maker? Is that the CEO, the CRO, or is it within the realm of the Chief of HR?

Gary Burnison
It's all of the above. And I can think of one as a different energy company that is -- it's coming from the CEO. So, it really depends, Mark, but it's starting with the leader of the business and a new strategy or a different strategy. Then where that gets purchased -- sometimes it is the CEO or CFO, and other times it goes down to other parts of the organization, including HR.

Mark Marcon
Great. Congrats on that. And then on interim and professional search, you've obviously made a lot of different acquisitions there with different profiles. Can you just discuss like within this quarter and even going back to last quarter which ones are performing the best -- which segments are performing the best? Which ones are perhaps being impacted a little bit more by the uncertainty that's out there? And how does that inform what your future strategy is going to be in that space?

Gary Burnison
It's a huge market that has visible, predictable, durable revenue streams. We are going to continue to lean into the interim space. Today, that business is -- that solution is probably 330 million, something like that, 340 in that neighborhood. I'll tell you that within the PS&I solution, where we have found the best success is where the company is operating at the higher end with really skilled talent. That's where our competitive advantage is. And I think we -- and Bob can clarify. I think we've landed something like 1,000 cross referral engagements since we've gotten into this business. The ones where the least success and it's a little bit trickier for us is where the acquiree has a percentage of their business that is doing kind of contingent placement. That for us on a number of dimensions is a little bit trickier for sure, given that our business is generally retained. And so, those businesses that would have a larger contingent portion in terms of hiring in the PS&I solution, those would be harder for us. And they're not as strategically aligned. So, as we're looking at growing that solution to $1 billion, we're focused on the higher end of the interim business, and we would probably shy away from things that have a bigger contingent solution for sure. But I just -- I think that what you're seeing in this peak 65, I think, you're going to see people that may say, hey, I don't want to work full time, but I want to work part time, and I want to have a different work-life balance. They still want to contribute. And I think you're going to see more of that as people live longer. And I think with the impending supply-demand imbalance on the labor front, I think that's going to play to that, as well. At least that's how we're looking at things.

Bob Rozek
Hey, Mark. This is Bob. I would also say that the -- when you think about the different verticals, the functional verticals that we have, they kind of, with the diversification and being at higher levels in the organization as well as -- Gary just talked about the C-suite, I think that gives that

business a bit more durability when one of the particular verticals is up, another one might be down vice versa at a later point in time.

Mark Marcon
I was just wondering if you could, Bob -- you were beating me to the question in terms of just the functional verticals. Which ones are you seeing the strongest performance in versus which ones may be challenged? And how are you thinking about the IT vertical given that there's more and more discussion about AI potentially having an impact with regards to the need for coding or the increasing efficiency as it relates to coding?

Bob Rozek
Gary, you want me to take that?

Gary Burnison
Yeah. Yeah. Yeah. Go ahead. Go ahead.

Bob Rozek
Yes. So, listen. I think as we sit there today, the IT vertical, it has some impact from the pending evolution of AI, GenAI, all that. Although I would say, today, it's still in the sort of what I would call infancy stages. It's making progress, and it's accelerating, but it's still at a point where it's not particularly -- it doesn't have the efficacy yet that's needed. And I think as IT organizations are trying to deal with it, we have felt some impact there. I would say on the F&A side, we've seen a little bit of bounce back in that particular vertical where we are right now. So, it's -- again, the two kind of counterbalance each other. The C-suite area with our Patina acquisition, as Gary mentioned, is strong because of the dynamics that we're seeing in the peak 65, if you will. And now the other vertical we have -- we play a little bit in the HR space, and that one is kind of on the smaller side. The only thing I would say, too, is Gary is right on the contingent side, although it's not a what I would call a massive part of our business at this point in time.

Mark Marcon
Great. And then just last question and just for Gary and Bob. Obviously, the uncertainty that's out there has recently unfolded, and things are always uncertain. But what would you -- like what would it take for you to see signs that, hey, maybe things are unfolding in -- we're -- even though we're going into peak 65, the short-term macro kind of overwhelms that. What would you be looking for to say, hey, maybe we need to do even more contingency planning? I know you've always got contingency plans in place but in terms of putting in place the playbook for things getting a little bit tougher.

Gary Burnison
Well, I think if -- the cost of living crisis is exaggerated. I think that's the big issue. And anything -- companies do not have pricing power today. It's pricing in elasticity. And so, I think anything that materially impacts the consumers' ability to live and affordability, that's a problem. Now, on the other side of it, I think you're going to see -- because we are a very global firm, and you

see it in our results. I mean, the thing that I step back and look at this firm over the last eight quarters and look at the overall results and the profitability in just a very, very challenging environment, I mean, it gives me tremendous confidence and hope. The other side of that, though, is within EMEA. And the conversations around, for example, in Germany, that they are going to lift that debt ceiling and that some countries there are going to be increasing their defense spending is very, very good for us. And so, that is -- definitely could be a positive for sure. But I think the most basic thing here is around the cost of living. And anything that makes things more expensive is not a good thing. And I view the last couple of weeks -- and I could be wrong, but I view the last couple of weeks as negotiation. And it's just hard for me to get my mind around that somebody would actually -- you would do something that's very, very harmful that would make the cost of living even higher for say in America the average American.

Bob Rozek
Hey, Mark. This is Bob. I'll look at it a bit more tactically. So, when -- I look at our new business every day. I look at our unit counts. I look at volumes. And for me, that's the real driver of when you start to see trends. I'll give you an example of Exec Search [sp], the unit count in the third quarter was up 3%. In the month of February, it was actually up low double-digits. But those are the things that I would pay attention to myself is, okay, we've got the macro environment that Gary just went through, and you have to understand all that. But then how does that translate to what we're seeing on a day-by-day basis in terms of levels of new business, volumes, and so on. And that would be one of the main drivers as we think about the need to take action or not.

Mark Marcon
Great. Thank you very much. Appreciate it.

Operator
Your next question comes from the line of Tobey Sommer from Truist Securities. Your line is open.

Tyler Barishaw
Hi. This is Tyler Barishaw on for Tobey. You mentioned 25 new fee earners in the quarter. How should we think about that as like a -- think about that as a run rate going into fiscal year '26, or can you just maybe raise some expectations for that?

Gary Burnison
Well, we're -- I think that's probably fair. We are -- we've continued to actively manage the talent that we have within the organization. You're going to continue to see us do that. And we're out -- we have been for many, many quarters continuing to promote from within, creating opportunities within the firm where we're a coveted career destination. We're going to continue that. Just a couple of months ago, we promoted 1,000 people across the organization, and we'll continue to augment that by looking at the outside. We don't really publish targets per se like that. But I think you're going to continue to see us make sure that we're pivoting

towards profitable work, that we're raising the productivity whether that's through technology and AI or other things. you're going to continue to see us do that. And we're going to aggressively bring in talent. So, it would be reasonable for the next quarter to kind of think about the number you said but also that we're going to actively manage the workforce that we have today, as well.

Bob Rozek
That's an important point, Gary, because I think the number is that -- the 25 is a net number. So, depending on what side of the equation you're leaning in on, it's going to influence that outcome.

Tyler Barishaw
Got it. And then just -- you mentioned on E-suite [sp] churn, a lot of execs over 65. How should we think about the swing factor like capital markets recovery? Should we expect that to have a meaningful impact on demand for exec search?

Gary Burnison
The capital markets recovery. Well, certainly, there's a lot of pent-up demand. There's no question about that. And there was a -- five, six weeks ago, there were a lot of animal spirits. In the last couple of weeks, that's been dampened a bit. But I think the -- I actually think the bigger issue is the baby boomers. I think that's a big deal. I do believe that's going to have an impact, and it's going to create a significant imbalance along with lower birth rates when you look out a little bit longer term. And I think the other thing, too, is that those leaders have guided organizations through arguably a very difficult time in humanity from COVID to the great resignation to a cost of living crisis. I think that's having an impact on executives, as well. So, yes, clearly I think a swing in the capital markets could be, for sure, a positive. But I think the bigger thing that's just straight mathematics is the actual supply and demand imbalance that's heading our way. And that's good for Korn Ferry because it means that companies are going to have to do different things with their workforce, how they empower, how they inspire, how they develop, how they reskill. All of those things that were talked about many, many years ago are actually at our doorstep. And I think that creates opportunity for us.

Tyler Barishaw
Makes sense. And just one final one. It looks like '25 is going to be other year of margin -- or will be a year of large margin expansion. How should we think about margin expansion in '26?

Gary Burnison
Well, Bob can definitely correct me. We've targeted kind of 16% to 18% margins. And we want to make sure that we are simultaneously delivering increasing earnings for sure for shareholders, investing in the business, and returning cash to shareholders. We're trying -- and I think if you look, we've been very, very balanced around that. And I think right now, as we sit here today, we're very comfortable with that 16% to 18%. We just have to make sure that we're not cutting our nose off. That we are investing in the places we need to invest to take

advantage of what we think will happen over the next several years vis-a-vis labor and what companies are going to have to do differently.

Tyler Barishaw
Thank you.

Operator
And your final question comes from the line of Josh Chan from UBS. Your line is open.

Karan Singhania
Hi. Good morning. This is Karan Singhania on for Josh. Thanks for taking our questions. So, we wanted to ask on the Q4 margin guide. Typically, Q4 margins are higher than Q3, but it looks like you're guiding margins down this time. So, just wondering if you can maybe give a bit more color on what you're seeing across the businesses? And what is different than prior years in terms of that, just that sequential [inaudible]?

Gary Burnison
Yeah. I mean I think you have to first -- and Bob, you can take it. But first you have to step back and say, okay, hold on, guys. When you adjust for the change of mix in our business, pro forma, our margins are up like 350 basis points over the last several years. These margins are incredibly healthy. And whether it's 16.5 or 17.2, those are incredible margins. But, Bob, I'll let you -- and you can [inaudible].

Bob Rozek
I'm not sure -- I mean, on the margin, if it's lower, it's like 10 basis points. So, it's not -- I don't think there's really a question to be honest with you.

Karan Singhania
Okay. That makes sense. And just like, as my follow-up, I just wanted to ask on the North America executive search business. So, growth in that came in strong at like 6%. And I think you briefly touched on that in one of the previous questions. But can you just elaborate on what drove that growth? And can we expect a recovery in that business from here on?

Gary Burnison
Look, that business -- that solution is -- we've seen real strength over the last several months. And I do believe that, yes -- does that reflect the success of our strategy? Yes. But I also believe that it reflects all the things that I've been talking about, including peak 65 and cost of living crisis and work life balance. I think it encompasses all of those things together. And this is -- the last eight quarters have actually been quite unusual when you look at past employment cycles. To see the temp penetration rates go down for almost three years and now it finally is kind of -- it looks like maybe it stabilized at 1.6%. To see the outsourcing solution that we have, to see that go down at a time when companies are cutting costs, it's been a very, very strange eight quarters. And that's why I would step back and look at the firm in total and the fact that we are

impacting a client's organizational performance. We have durable revenue streams. The solutions look to counterbalance each other and a macro trend ahead that would suggest that companies are going to have to do stuff -- do things differently with their workforce. So, that's how I look at the firm today. And the search is, I think, the -- it's the result of a lot of things we've been talking about on this call.

Karan Singhania
Got it. That's right. [Inaudible]. Thank you.

Operator
And that ends our question-and-answer session. I will now turn the call back over to Mr. Burnison.

Gary Burnison
Okay. Thank you, everybody. Again, I am enormously proud of our organization and how we have pivoted through a very, very difficult economic environment over the last eight quarters and have produced incredible results and, more importantly, really driving clients' organizational performance. That's what Korn Ferry is all about, to enable people and organizations to do more than. So, with that, thank you for your time. Rob, thank you for hosting this, and we'll talk to you next time.

Operator
Ladies and gentlemen, this conference call will be available for replay for one week starting today running through the end March 18, 2025, ending at midnight. You may access the Echo Replay Service by dialing (800) 770-2030 and entering the access code 1529021 followed by the pound key. Additionally, the replay will be available for playback at the company's website, www.kornferry.com in the Investor Relations section. This concludes today's conference call. You may now disconnect.