

# HEIDRICK & STRUGGLES

## Third Quarter 2022 Results

October 24, 2022

# Cautionary Statement Regarding Forward-Looking Information

The following slides contain forward-looking statements within the meaning of the federal securities laws. The forward-looking statements are based on current expectations, estimates, forecasts, and projections about the industry in which we operate and management's beliefs and assumptions. Forward-looking statements may be identified by the use of words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "outlook," "projects," "forecasts," and similar expressions. Forward-looking statements are not guarantees of future performance, rely on a number of assumptions, and involve certain known and unknown risks and uncertainties that are difficult to predict, many of which are beyond our control. Factors that may cause actual outcomes and results to differ materially from what is expressed, forecasted, or implied in the forward-looking statements include, among other things, the impacts, direct and indirect, of the COVID-19 pandemic (including the emergence of variant strains) on our business, our consultants and employees, and the overall economy; the impact on global or a regional economy due to the outbreak or escalation of hostilities or war; leadership changes, our ability to attract, integrate, develop, manage and retain qualified consultants and senior leaders; our ability to prevent our consultants from taking our clients with them to another firm; our ability to maintain our professional reputation and brand name; the fact that our net revenue may be affected by adverse economic conditions; our clients' ability to restrict us from recruiting their employees; the aggressive competition we face; our heavy reliance on information management systems; the fact that we face the risk of liability in the services we perform; the fact that data security, data privacy and data protection laws and other evolving regulations and cross-border data transfer restrictions may limit the use of our services and adversely affect our business; social, political, regulatory and legal risks in markets where we operate; any challenges to the classification of our on-demand talent as independent contractors; the impact of foreign currency exchange rate fluctuations; the fact that we may not be able to align our cost structure with net revenue; unfavorable tax law changes and tax authority rulings; our ability to realize our tax losses; the timing of the establishment or reversal of valuation allowance on deferred tax assets; any impairment of our goodwill, other intangible assets and other long-lived assets; our ability to execute and integrate future acquisitions; the fact that we have anti-takeover provisions that make an acquisition of us difficult and expensive; our ability to access additional credit; and the increased cybersecurity requirements, vulnerabilities, threats and more sophisticated and targeted cyber-related attacks that could pose a risk to our systems, networks, solutions, services and data. We caution the reader that the list of factors may not be exhaustive. For more information on these risks, uncertainties and other factors, refer to our Annual Report on Form 10-K for the year ended December 31, 2021, under the heading "Risk Factors" in Item 1A, as updated in Part II of our subsequent Quarterly Reports on Form 10-Q, and other filings with the Securities and Exchange Commission. The forward-looking statements contained in this press release speak only as of the date of this press release. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

# Non-GAAP Financial Measures & Currency Presentation

## NON-GAAP FINANCIAL MEASURES

To supplement the financial results presented in accordance with generally accepted accounting principles in the United States ("GAAP"), Heidrick & Struggles presents certain non-GAAP financial measures. A "non-GAAP financial measure" is defined as a numerical measure of a company's financial performance that excludes or includes amounts different than the most directly comparable measure calculated and presented in accordance with GAAP in the statements of comprehensive income, balance sheets or statements of cash flow of the Company. Pursuant to the requirements of Regulation G, these earnings release slides contain the most directly comparable GAAP financial measure to the non-GAAP financial measure.

The non-GAAP financial measures used within these earnings release slides are adjusted operating income, adjusted operating income margin, adjusted net income, adjusted basic and diluted earnings per share, adjusted EBITDA, and adjusted EBITDA margin. These measures are presented because management uses this information to monitor and evaluate financial results and trends. Management believes this information is also useful for investors. Reconciliations of these non-GAAP financial measures with the most directly comparable measures calculated and presented in accordance with GAAP are provided in the appendix to these earnings release slides.

The Company evaluates its results of operations on both an as reported and a constant currency basis. The constant currency presentation is a non-GAAP financial measure, which excludes the impact of fluctuations in foreign currency exchange rates. The Company believes providing constant currency information provides valuable supplemental information regarding its results of operations, consistent with how it evaluates its performance. The Company calculates constant currency percentages by converting its financial results in a local currency for a period using the average exchange rate for the prior period to which it is comparing. This calculation may differ from similarly-titled measures used by other companies.

## CURRENCY PRESENTATION

All currency amounts presented in millions except for earnings per share data.

## APPENDIX CURRENCY PRESENTATION

All currency amounts presented in thousands except for earnings per share data.

# Overview



# Our Purpose & Vision

Our search expertise and organizational consulting experience empower our clients to develop high-performing leaders, teams, and organizations.

## OUR PURPOSE

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- We help our clients change the world, one leadership team at a time.™

## OUR VISION

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- We are committed to serving our clients as trusted advisors providing diversified solutions across executive search, leadership assessment & development, team and organizational effectiveness, culture shaping, and on-demand talent.

## INTEGRATED SERVICES FUELED BY DATA

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- Executive Search
- On-Demand Talent
- Heidrick Consulting
  - Leadership
  - Organization & Culture
  - Diversity, Equity & Inclusion

# Financial Highlights

Heidrick & Struggles delivers strong profitability – near historic highs – from revenue materially above pre-pandemic record levels



## REVENUE

- Quarterly net revenue of \$255.2 million; on a constant currency basis\*, net revenue was \$265.8 million for the third quarter



## OPERATING INCOME

- Quarterly operating income of \$28.3 million with robust operating margins of 11.1%
- Year to date operating income of \$92.4 million approaches full year 2021 operating income of \$98.3 million



## EBITDA & NET INCOME

- Net income of \$20.8 million in the quarter is the fourth highest net income in Company history
- Adjusted EBITDA\* of \$33.3 million and Adjusted EBITDA Margin\* of 13.0%



## EARNINGS PER SHARE

- Quarterly diluted earnings per share of \$1.02
- Year to date diluted earnings per share of \$3.09

“Our bottom-line performance exceeded our expectations, even as we continue to make investments in digital product innovation and despite experiencing unfavorable foreign exchange fluctuations along with an anticipated slowing market. On a constant currency basis, revenue for the quarter met our expectations and beat record year-ago levels.”

- Krishnan Rajagopalan, CEO

\* Non-GAAP Financial Measure

# Growth Through Innovative Offerings



## ON-DEMAND TALENT

- Revenue continues to exceed pre-acquisition levels
- Continued benefit from working within the H&S network of clients with approximately 15% of revenue generated through internal referrals from Executive Search and Heidrick Consulting



## EIGHTFOLD.AI

- Partnership marks another step in our journey to expand our suite of leadership solutions with innovative, tech-driven offerings and drive future growth
- Two industry leaders will bring together the best of leadership intelligence, data analytics and technology - with a digital-first approach designed to enable better leadership decisions and business outcomes



## FUTURE GROWTH

- Invest in new product development and strategic expansion into adjacent and complementary areas with innovative, tech-driven offerings to drive future growth and shareholder value



# **Consolidated Results**

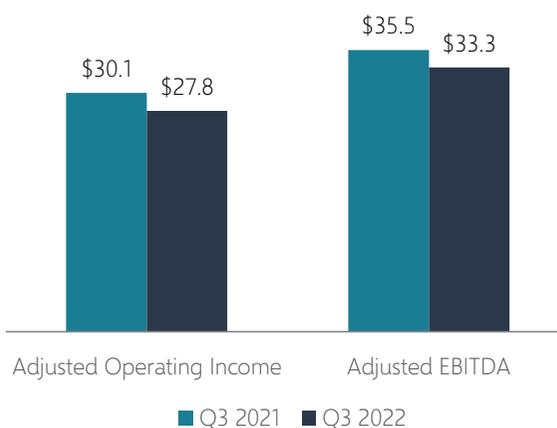
# Consolidated Financial Highlights

## NET REVENUE



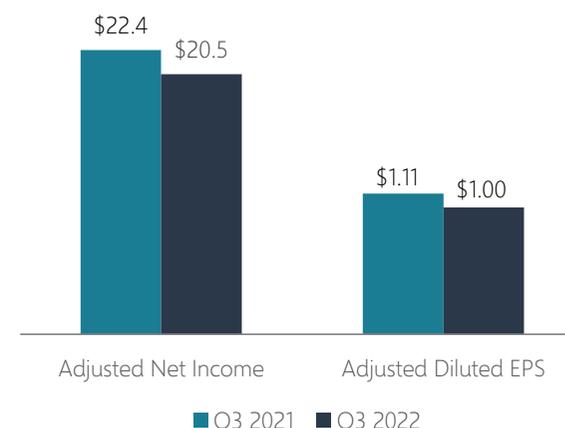
3% year-over-year decline  
1% year-over-year increase on a constant currency\* basis

## ADJUSTED PROFITABILITY\*



8% year-over-year decline in Adjusted Operating Income\*  
6% year-over-year decline in Adjusted EBITDA\*

## ADJUSTED NET INCOME\* & EPS\*



9% year-over-year decline in Adjusted Net Income\*  
10% year-over-year decline in Adjusted Diluted EPS\*

\* Non-GAAP Financial Measure

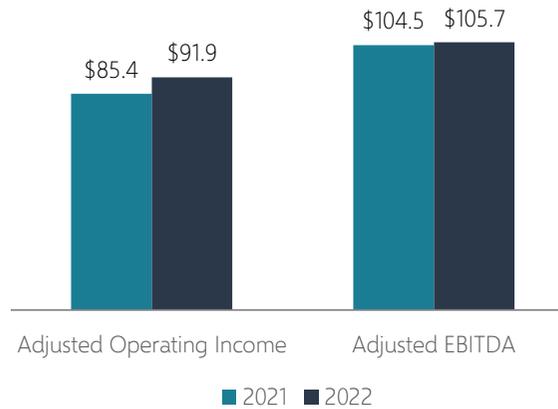
# Consolidated Financial Highlights

## NET REVENUE



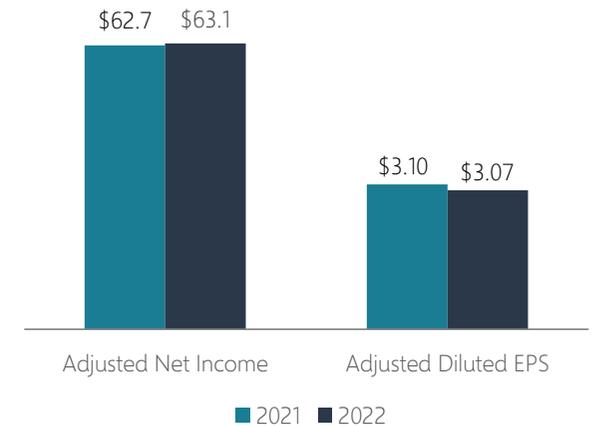
17% year-over-year growth  
20% year-over-year growth on a constant currency\* basis

## ADJUSTED PROFITABILITY\*



8% year-over-year growth in Adjusted Operating Income\*  
1% year-over-year growth in Adjusted EBITDA\*

## ADJUSTED NET INCOME\* & EPS\*

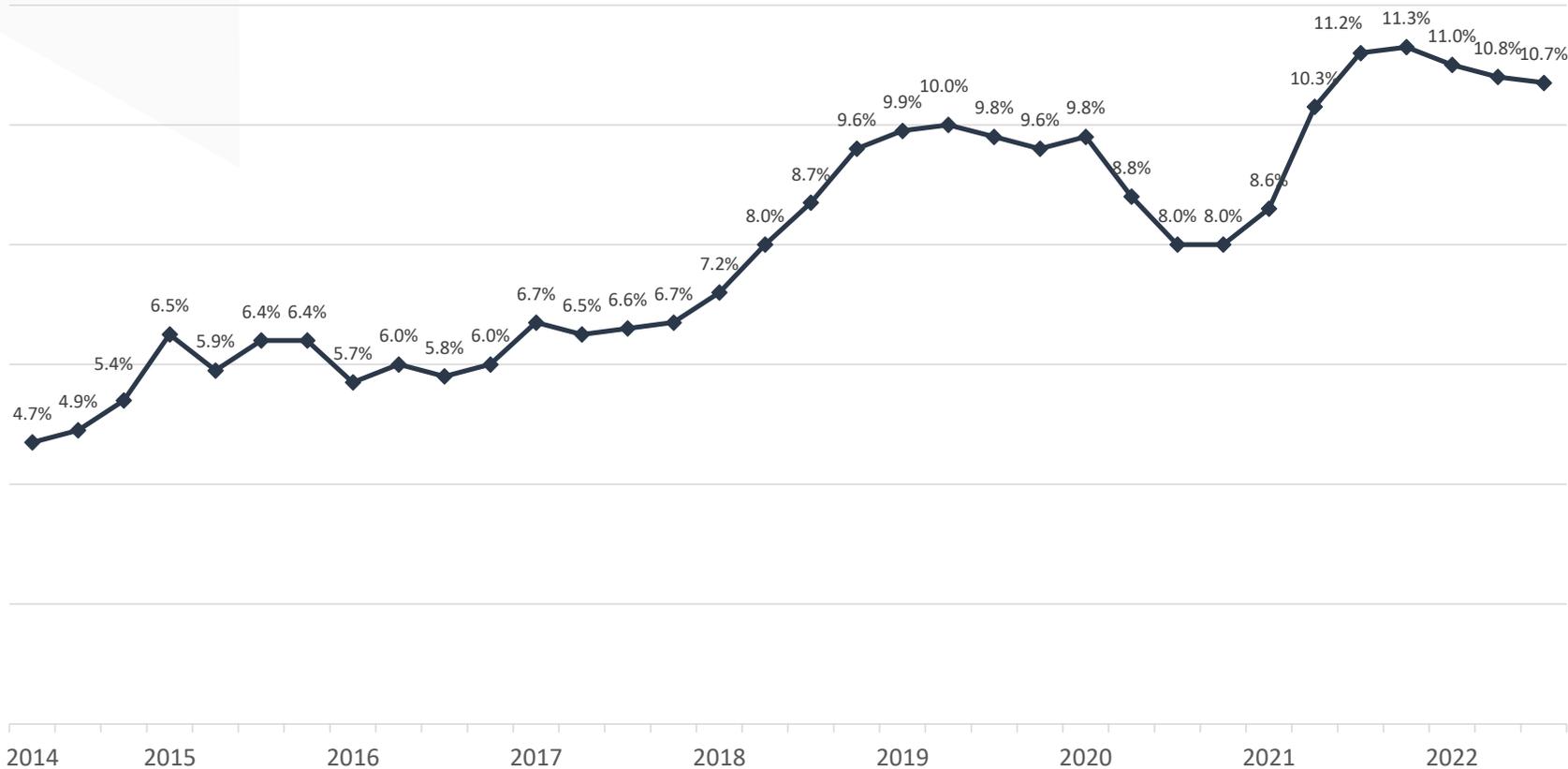


1% year-over-year growth in Adjusted Net Income\*  
\$0.03 year-over-year decline in Adjusted Diluted EPS\*

\* Non-GAAP Financial Measure

# Expansion In Adjusted Operating Income Margin

TRAILING 12-MONTH ADJUSTED OPERATING INCOME\* / TRAILING 12-MONTH CONSOLIDATED NET REVENUE



+600 bps increase in TTM Adjusted Operating Margin\* over 8 years

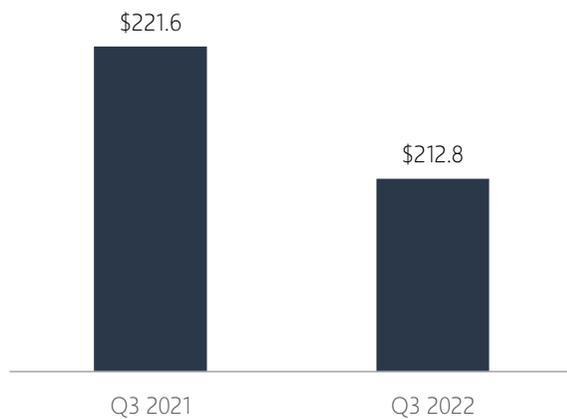
\* Non-GAAP Financial Measure – Excludes restructuring charges, impairment charges, and earnout adjustments

# Executive Search Results



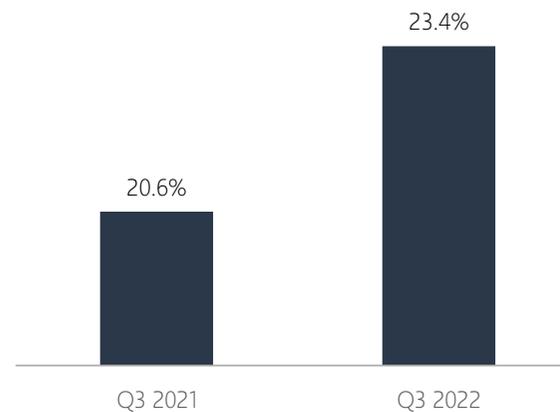
# Executive Search Financial Highlights

## NET REVENUE



4% year-over-year decline in net revenue

## ADJUSTED OPERATING MARGIN\*

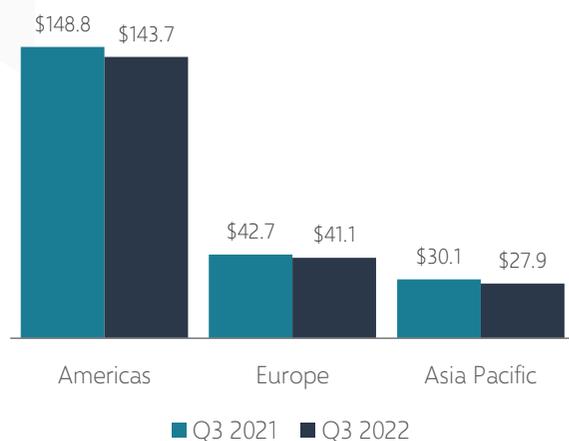


280 bps year-over-year growth in Adjusted Operating Margin\*

\* Non-GAAP Financial Measure

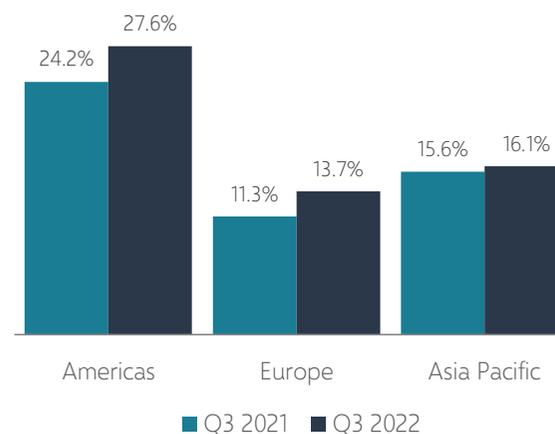
# Executive Search Regional Highlights

## NET REVENUE BY REGION



Americas 3% year-over-year decline  
 Europe 4% year-over-year decline  
 Asia Pacific 7% year-over-year decline

## ADJUSTED OPERATING MARGIN\* BY REGION

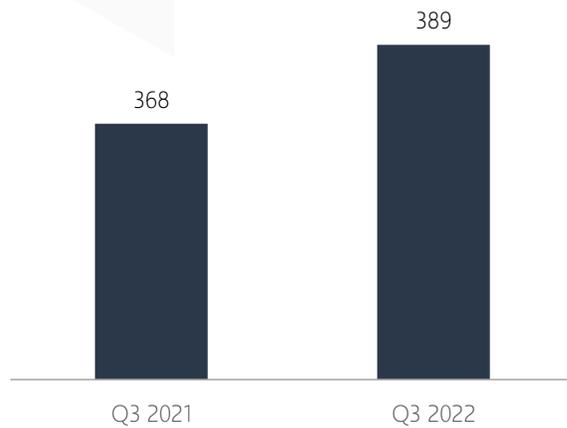


Americas 340 bps year-over-year growth  
 Europe 240 bps year-over-year growth  
 Asia Pacific 50 bps year-over-year growth

\* Non-GAAP Financial Measure

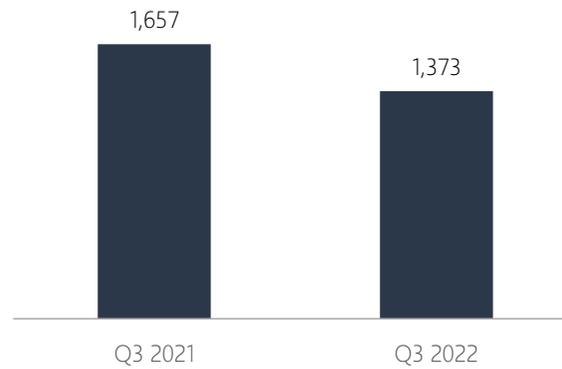
# Executive Search Operational Highlights

## CONSULTANT HEADCOUNT



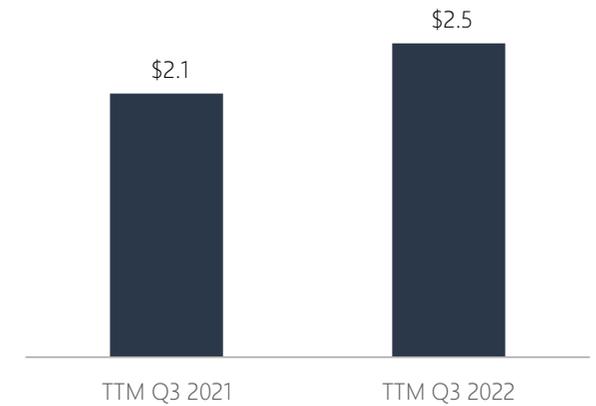
6% year-over-year consultant headcount growth

## SEARCH CONFIRMATIONS



17% year-over-year decline in confirmation volume

## CONSULTANT PRODUCTIVITY

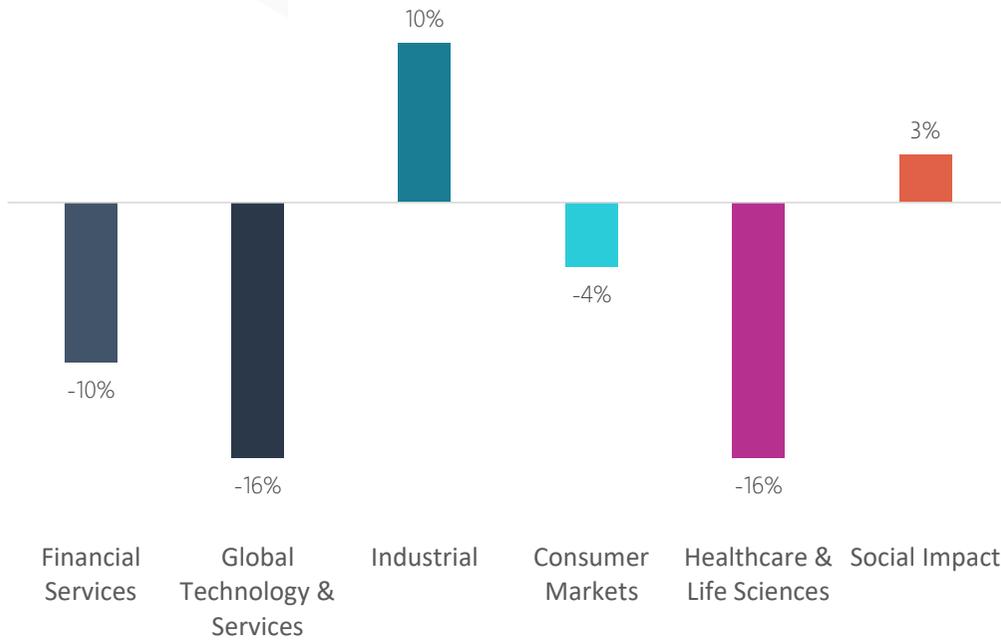


19% year-over-year increase in trailing twelve-month productivity

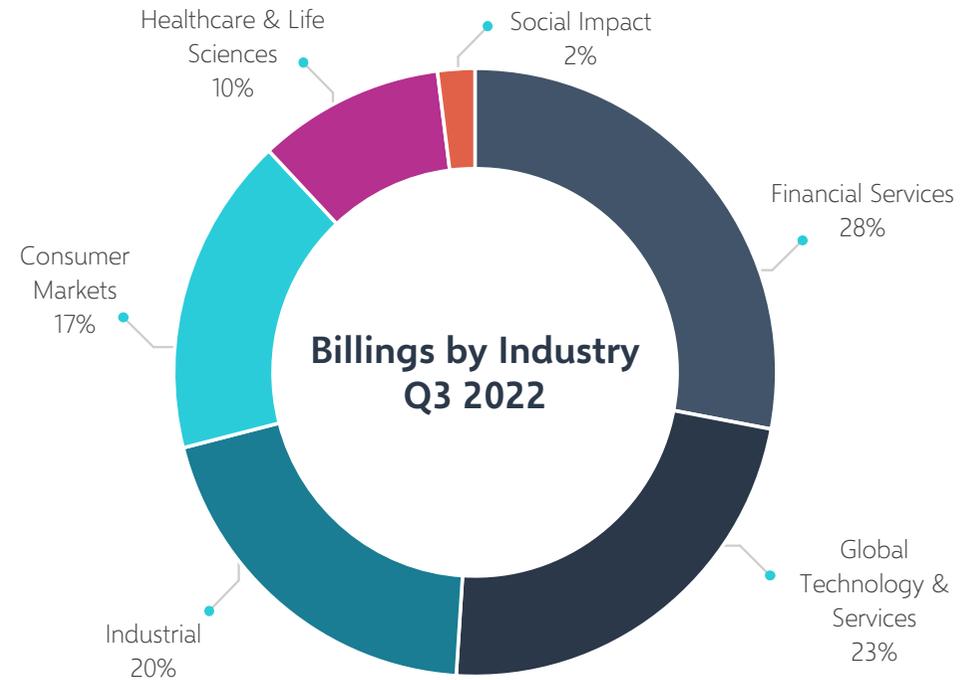
# Diversified Mix Of Business In Executive Search

## COMPARISON OF INDUSTRY BILLINGS

Q3 2021 vs. Q3 2022

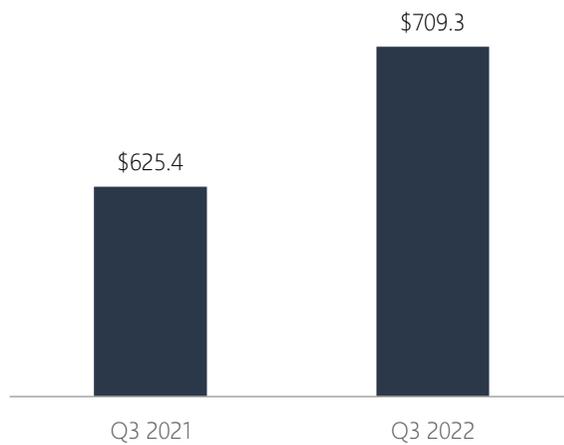


## MIX OF INDUSTRIES



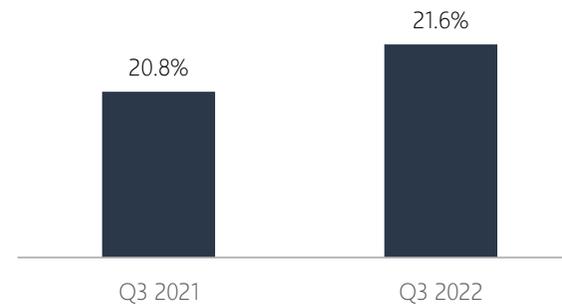
# Executive Search Financial Highlights

## NET REVENUE



13% year-over-year growth in net revenue

## ADJUSTED OPERATING MARGIN\*

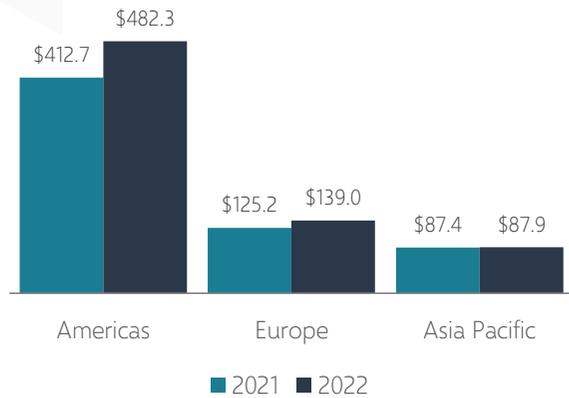


80 bps year-over-year growth in Adjusted Operating Margin\*

\* Non-GAAP Financial Measure

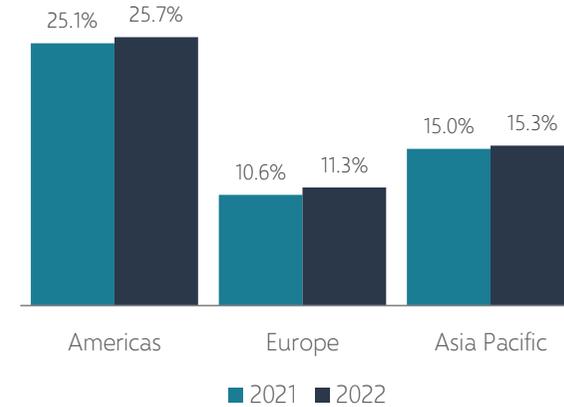
# Executive Search Regional Highlights

NET REVENUE BY REGION



Americas 17% year-over-year growth  
 Europe 11% year-over-year growth  
 Asia Pacific 1% year-over-year growth

ADJUSTED OPERATING MARGIN\* BY REGION

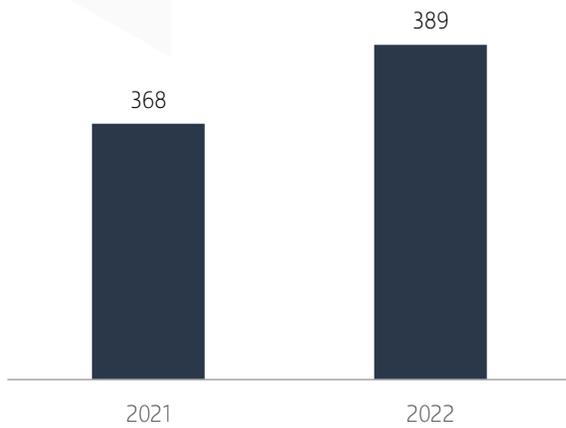


Americas 60 bps growth year-over-year  
 Europe 70 bps growth year-over-year  
 Asia Pacific 30 bps year-over-year growth

\* Non-GAAP Financial Measure

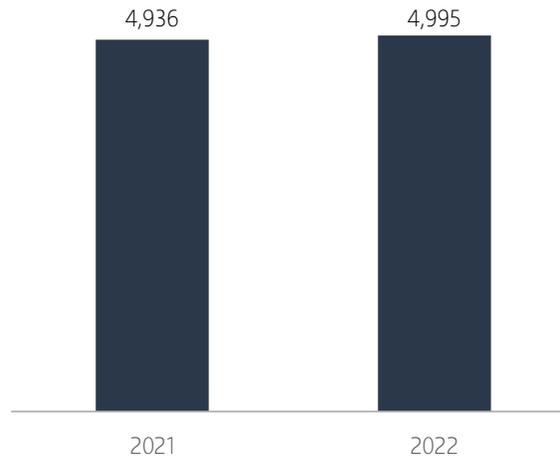
# Executive Search Operational Highlights

## CONSULTANT HEADCOUNT



6% year-over-year consultant headcount growth

## SEARCH CONFIRMATIONS



1% year-over-year growth in confirmation volume

## CONSULTANT PRODUCTIVITY

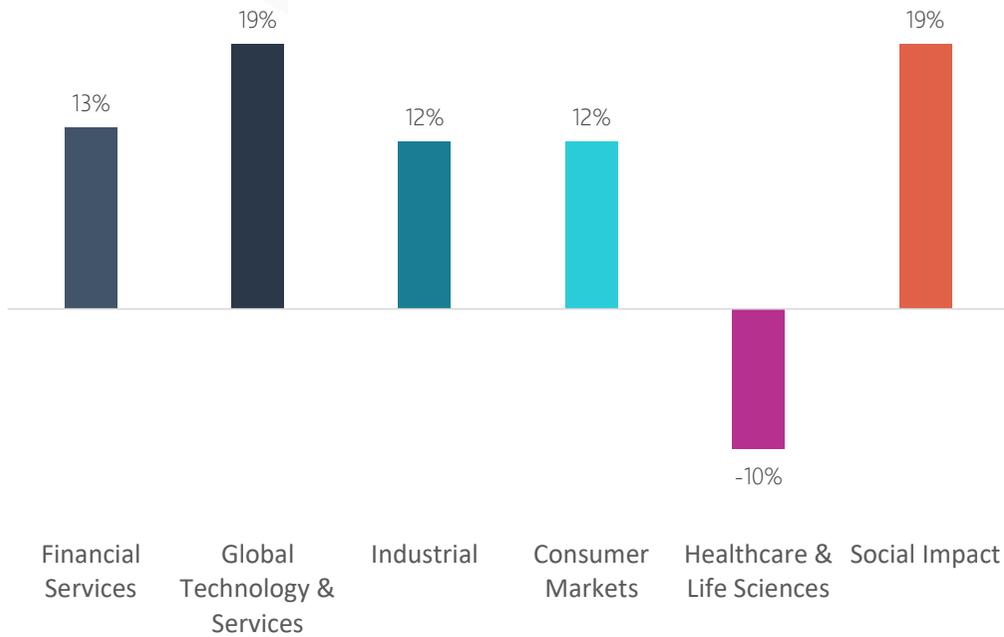


19% year-over-year increase in trailing twelve-month productivity

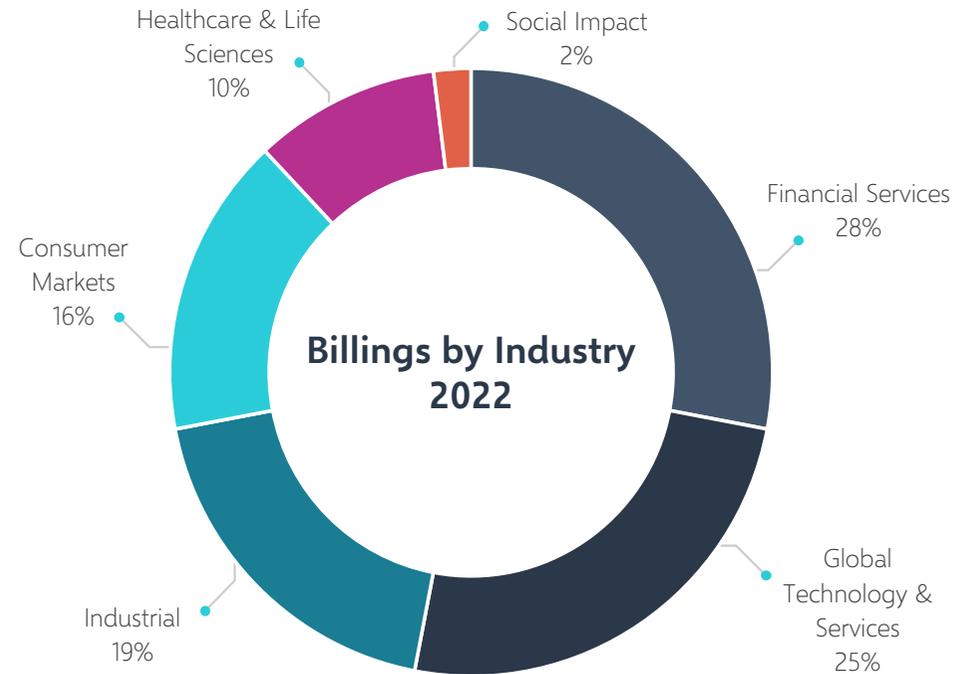
# Diversified Mix Of Business In Executive Search

## COMPARISON OF INDUSTRY BILLINGS

2021 vs. 2022



## MIX OF INDUSTRIES

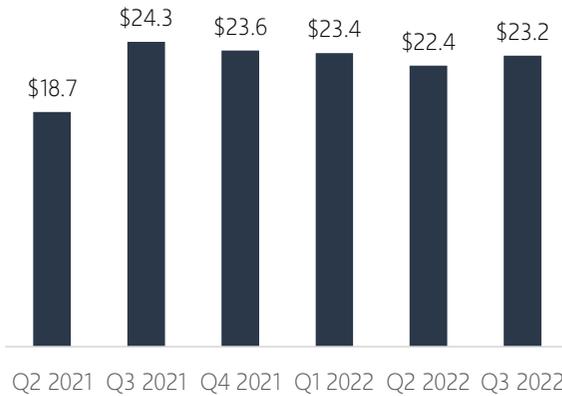


# On-Demand Talent Results



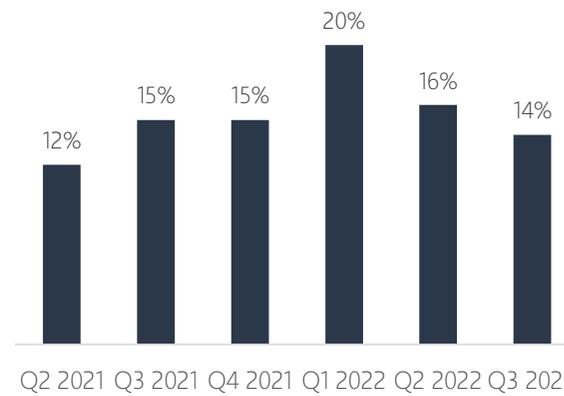
# On-Demand Talent Financial Highlights

## NET REVENUE



Significant revenue growth post-acquisition

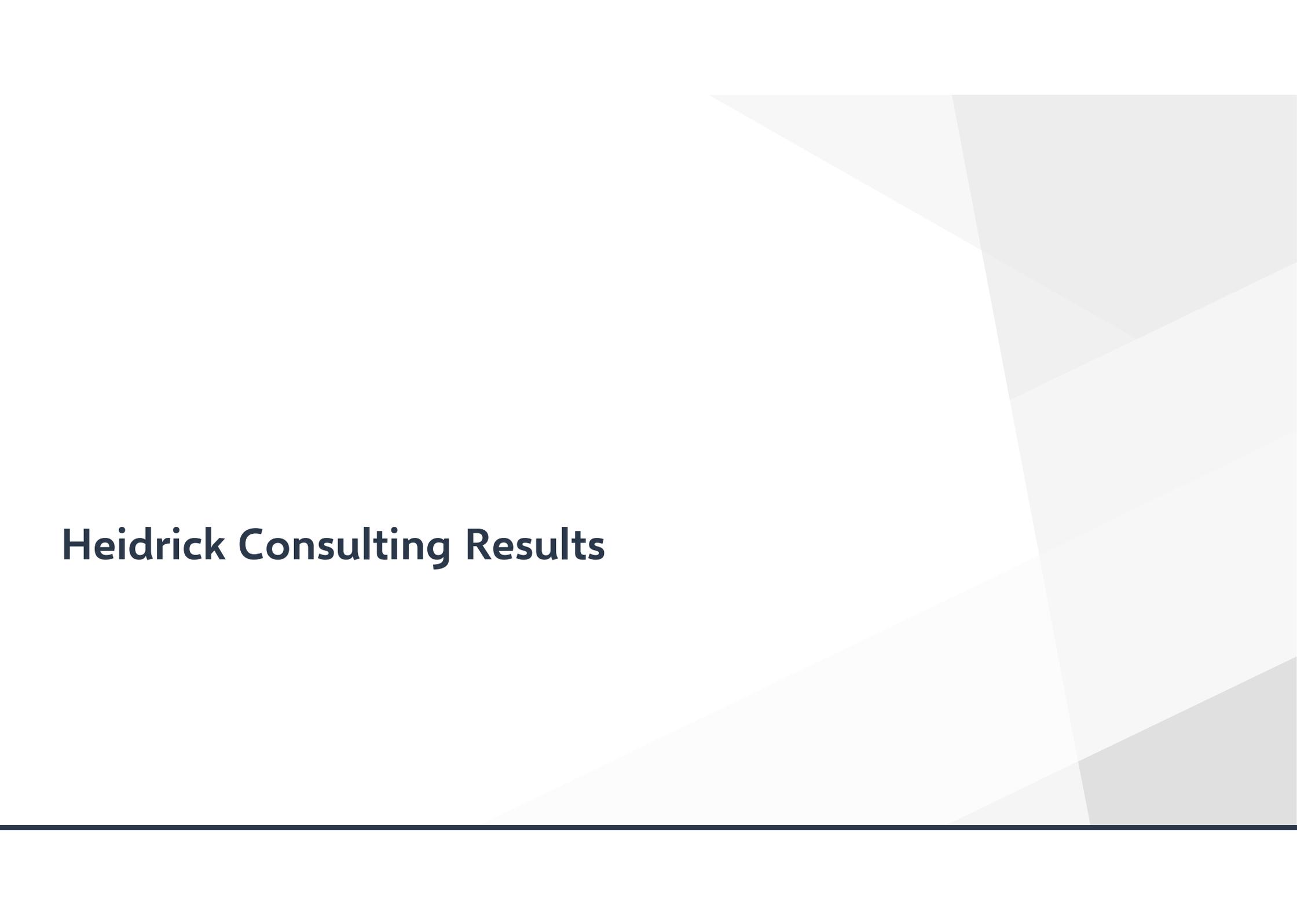
## REFERRAL REVENUE\*\*



On-Demand continues to benefit from working within the H&S network of clients

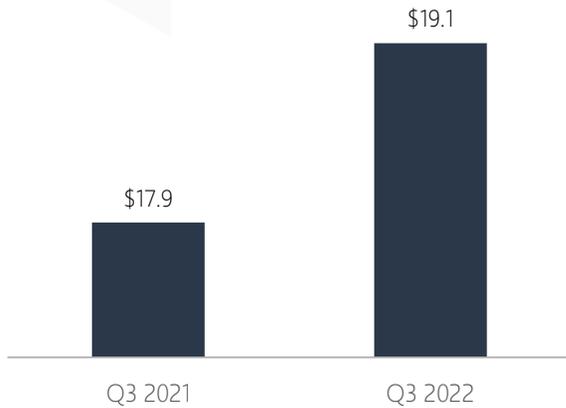
\*\* Percentage of revenue referred by Executive Search and Heidrick Consulting

# Heidrick Consulting Results



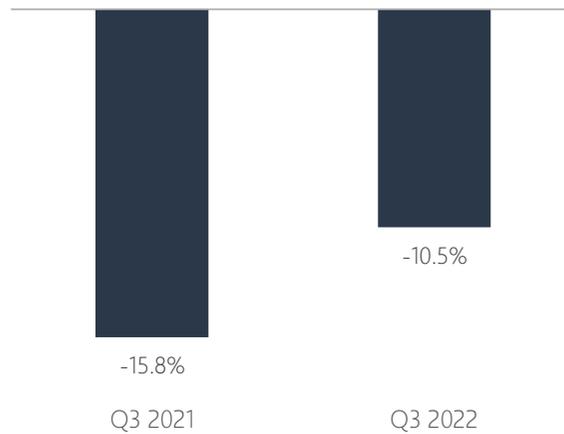
# Heidrick Consulting Financial Highlights

## NET REVENUE



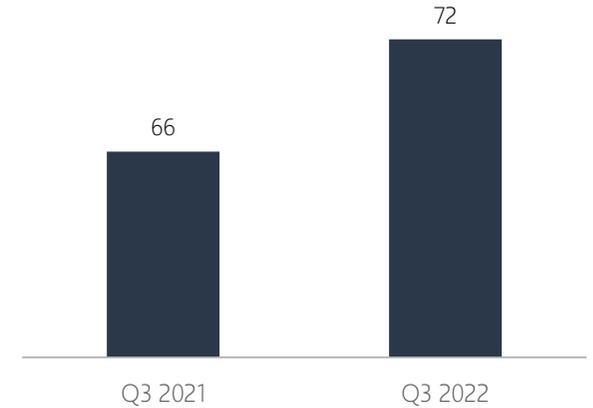
7% year-over-year growth

## ADJUSTED OPERATING MARGIN\*



530 bps year-over-year growth

## CONSULTANT HEADCOUNT



9% increase in consultant headcount

\* Non-GAAP Financial Measure

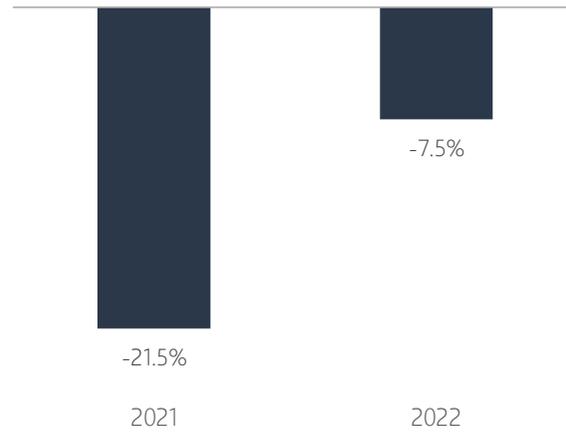
# Heidrick Consulting Financial Highlights

## NET REVENUE



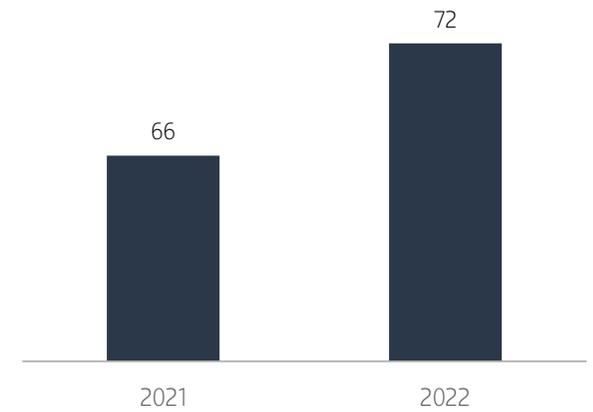
21% year-over-year growth

## ADJUSTED OPERATING MARGIN\*



1,400 bps year-over-year growth

## CONSULTANT HEADCOUNT



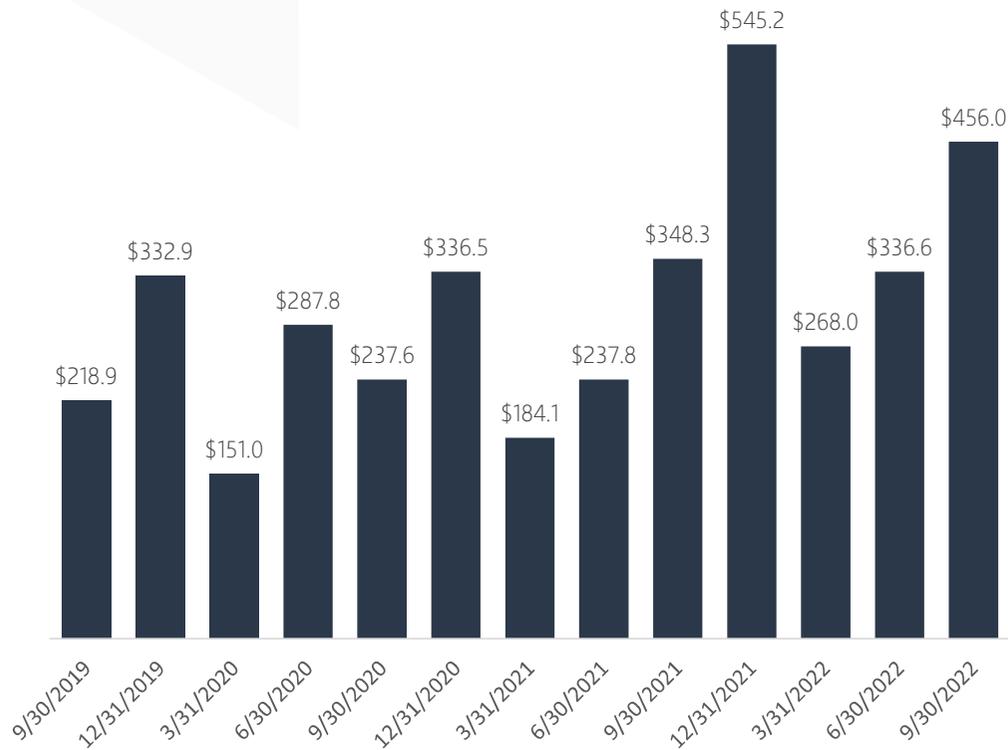
9% increase in consultant headcount

\* Non-GAAP Financial Measure

# Balance Sheet & Liquidity

# Strong & Flexible Balance Sheet

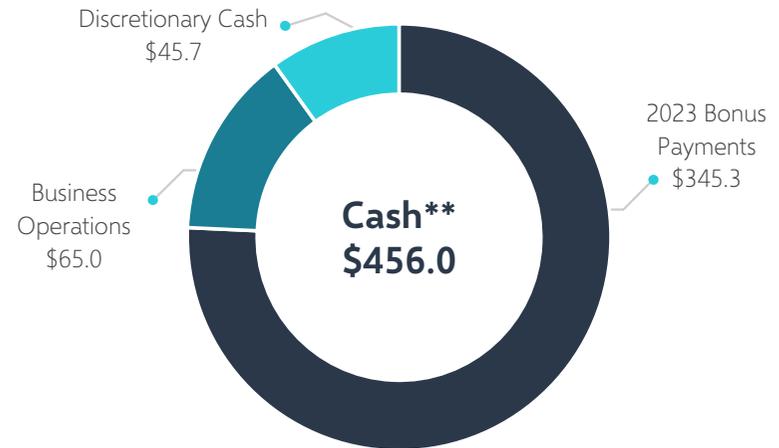
## CASH & MARKETABLE SECURITIES, NET OF DEBT



## CASH FLOW FROM OPERATING ACTIVITIES

	September 30, 2022	September 30, 2021
For the quarter ending:	\$138.5	\$117.1
For the nine months ending:	\$(41.0)	\$64.8

## DISCRETIONARY CASH



\*\* Cash, cash equivalents, and marketable securities



# **Strategy & Growth Initiatives**

# Growth Plans

01

**Grow scale and impact of both Executive Search and Heidrick Consulting, delivering a premium service experience and The Heidrick Way to clients**

02

**Expand development of leadership solutions and capabilities to address new and ongoing client imperatives**

03

**Invest in new product development and strategic expansion into adjacent/complementary areas with innovative, tech-driven offerings to drive future growth and shareholder value**

# Appendix

Reconciliation of GAAP to Non-GAAP Financial Measures

# Adjusted Operating Income by Segment

We define Adjusted Operating Income as operating income excluding earnout adjustments and restructuring charges.

Three Months Ended September 30, 2022									
(In \$ thousands)				Total	On-Demand	Heidrick	Research and	Global	Heidrick &
	Americas	Europe	Asia Pacific	Executive Search	Talent	Consulting	Development	Operations Support	Struggles
Revenue before reimbursements (net revenue)	\$ 143,747	\$ 41,141	\$ 27,919	\$ 212,807	\$ 23,247	\$ 19,131	\$ -	\$ -	\$ 255,185
Operating income (loss)	39,741	5,652	4,503	49,896	(276)	(2,000)	(5,400)	(13,898)	28,322
Adjustments									
Earnout adjustments	-	-	-	-	(507)	-	-	-	(507)
Total adjustments	-	-	-	-	(507)	-	-	-	(507)
Adjusted operating income (loss)	<u>\$ 39,741</u>	<u>\$ 5,652</u>	<u>\$ 4,503</u>	<u>\$ 49,896</u>	<u>\$ (783)</u>	<u>\$ (2,000)</u>	<u>\$ (5,400)</u>	<u>\$ (13,898)</u>	<u>\$ 27,815</u>
Operating margin	27.6%	13.7%	16.1%	23.4%	-1.2%	-10.5%	-2.1%	-5.4%	11.1%
Adjusted operating margin	27.6%	13.7%	16.1%	23.4%	-3.4%	-10.5%	-2.1%	-5.4%	10.9%

Three Months Ended September 30, 2021									
(In \$ thousands)				Total	On-Demand	Heidrick	Research and	Global	Heidrick &
	Americas	Europe	Asia Pacific	Executive Search	Talent	Consulting	Development	Operations Support	Struggles
Revenue before reimbursements (net revenue)	\$ 148,844	\$ 42,676	\$ 30,126	\$ 221,646	\$ 24,287	\$ 17,892	\$ -	\$ -	\$ 263,825
Operating income (loss)	38,972	4,795	4,712	48,479	881	(2,556)	-	(13,462)	33,342
Adjustments									
Restructuring charges	(2,887)	9	-	(2,878)	-	(279)	-	(105)	(3,262)
Total adjustments	(2,887)	9	-	(2,878)	-	(279)	-	(105)	(3,262)
Adjusted operating income (loss)	<u>\$ 36,085</u>	<u>\$ 4,804</u>	<u>\$ 4,712</u>	<u>\$ 45,601</u>	<u>\$ 881</u>	<u>\$ (2,835)</u>	<u>\$ -</u>	<u>\$ (13,567)</u>	<u>\$ 30,080</u>
Operating margin	26.2%	11.2%	15.6%	21.9%	3.6%	-14.3%	NM	-5.1%	12.6%
Adjusted operating margin	24.2%	11.3%	15.6%	20.6%	3.6%	-15.8%	NM	-5.1%	11.4%

# Adjusted Operating Income by Segment

We define Adjusted Operating Income as operating income excluding earnout adjustments and restructuring charges.

Nine Months Ended September 30, 2022									
(In \$ thousands)	Americas	Europe	Asia Pacific	Total Executive Search	On-Demand Talent	Heidrick Consulting	Research and Development	Global Operations Support	Heidrick & Struggles
Revenue before reimbursements (net revenue)	\$ 482,320	\$ 139,017	\$ 87,928	\$ 709,265	\$ 68,981	\$ 59,501	\$ -	\$ -	\$ 837,747
Operating income (loss)	123,842	15,661	13,469	152,972	(1,207)	(4,492)	(14,347)	(40,506)	92,420
Adjustments									
Earnout adjustments	-	-	-	-	(507)	-	-	-	(507)
Total adjustments	-	-	-	-	(507)	-	-	-	(507)
Adjusted operating income (loss)	<u>\$ 123,842</u>	<u>\$ 15,661</u>	<u>\$ 13,469</u>	<u>\$ 152,972</u>	<u>\$ (1,714)</u>	<u>\$ (4,492)</u>	<u>\$ (14,347)</u>	<u>\$ (40,506)</u>	<u>\$ 91,913</u>
Operating margin	25.7%	11.3%	15.3%	21.6%	-1.7%	-7.5%	-1.7%	-4.8%	11.0%
Adjusted operating margin	25.7%	11.3%	15.3%	21.6%	-2.5%	-7.5%	-1.7%	-4.8%	11.0%

Nine Months Ended September 30, 2021									
(In \$ thousands)	Americas	Europe	Asia Pacific	Total Executive Search	On-Demand Talent	Heidrick Consulting	Research and Development	Global Operations Support	Heidrick & Struggles
Revenue before reimbursements (net revenue)	\$ 412,740	\$ 125,228	\$ 87,429	\$ 625,397	\$ 43,006	\$ 49,059	\$ -	\$ -	\$ 717,462
Operating income (loss)	99,822	13,314	13,241	126,377	1,034	(10,897)	-	(34,858)	81,656
Adjustments									
Restructuring charges	3,882	(97)	(124)	3,661	-	355	-	(224)	3,792
Total adjustments	3,882	(97)	(124)	3,661	-	355	-	(224)	3,792
Adjusted operating income (loss)	<u>\$ 103,704</u>	<u>\$ 13,217</u>	<u>\$ 13,117</u>	<u>\$ 130,038</u>	<u>\$ 1,034</u>	<u>\$ (10,542)</u>	<u>\$ -</u>	<u>\$ (35,082)</u>	<u>\$ 85,448</u>
Operating margin	24.2%	10.6%	15.1%	20.2%	2.4%	-22.2%	NM	-4.9%	11.4%
Adjusted operating margin	25.1%	10.6%	15.0%	20.8%	2.4%	-21.5%	NM	-4.9%	11.9%

# Adjusted Net Income & Earnings Per Share

We define Adjusted Net Income as net income excluding earnout adjustments and restructuring charges, net of tax.

(In \$ thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 20,826	\$ 24,498	\$ 63,442	\$ 60,095
Adjustments				
Earnout adjustments, net of tax	(350)	-	(350)	-
Restructuring charges, net of tax	-	(2,075)	-	2,642
Total adjustments	(350)	(2,075)	(350)	2,642
Adjusted net income	<u>\$ 20,476</u>	<u>\$ 22,423</u>	<u>\$ 63,092</u>	<u>\$ 62,737</u>
Weighted-average common shares outstanding				
Basic	19,816	19,569	19,723	19,489
Diluted	20,413	20,240	20,558	20,259
Earnings per commons share				
Basic	\$ 1.05	\$ 1.25	\$ 3.22	\$ 3.08
Diluted	\$ 1.02	\$ 1.21	\$ 3.09	\$ 2.97
Adjusted earnings per common share				
Basic	\$ 1.03	\$ 1.15	\$ 3.20	\$ 3.22
Diluted	\$ 1.00	\$ 1.11	\$ 3.07	\$ 3.10

# Adjusted EBITDA & Adjusted EBITDA Margin

We define Adjusted EBITDA as earnings before interest, income taxes, depreciation, intangible amortization, equity-settled stock-based compensation, earnout accretion, earnout fair value adjustments, acquisition-related contingent compensation, deferred compensation plan income and expense, restructuring charges, and other non-operating income or expense.

(In \$ thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue before reimbursements (net revenue)	\$ 255,185	\$ 263,825	\$ 837,747	\$ 717,462
Net income	20,826	24,498	63,442	60,095
Interest, net	(1,255)	(90)	(1,664)	(207)
Other, net	43	(145)	1,740	(6,260)
Provision for income taxes	8,708	9,079	28,902	28,028
Operating income	28,322	33,342	92,420	81,656
Adjustments				
Stock-based compensation	3,778	2,846	10,804	8,311
Depreciation	1,785	1,774	5,403	5,311
Intangible amortization	799	751	2,421	1,752
Earnout accretion	276	182	820	363
Earnout fair value adjustments	(507)	-	(507)	-
Acquisition contingent compensation	911	475	2,971	1,398
Deferred compensation plan	(2,102)	(606)	(8,589)	1,949
Restructuring charges	-	(3,262)	-	3,792
Total adjustments	4,940	2,160	13,323	22,876
Adjusted EBITDA	\$ 33,262	\$ 35,502	\$ 105,743	\$ 104,532
Adjusted EBITDA margin	13.0%	13.5%	12.6%	14.6%

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