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Robert Half International, Inc. Q1 2008 Earnings Call Transcript

Question-and-Answer Session

[Operator Instructions]. Our first question comes from Andrew Steiner with Bear Stearns. Go ahead, please.

Andrew Steiner - Bear Stearns

Hi, gentleman. My question is about the relationship between revenues and margins at Protiviti. Revenues were up year-over-year. Margins were down versus the challenge quarter of a year ago. I know there was a plan to have more flexible staffing within the Protiviti unit. I wanted to know how that flexibility worked this quarter and what should we think about in terms of seasonality of operating margins for Protiviti.

M. Keith Waddell - Vice Chairman, President and Chief Financial Officer

So, Andrew in the United States, the cost flexed pretty much as planned. As we reported, our operating income was about what it was in last year. Outside of the United States and particularly in certain locations in Europe, we continued to have challenges. Those challenges continued into the quarter. They were a little tougher than we expected. So, in the U.S. things were pretty much as planned for the quarter. Outside the U.S., particularly in Europe, things were a little softer than we had planned. In Asia, we were quite strong. Japan particularly had a blowout quarter. We were very pleased with that.

As we go forward, the second quarter for Protiviti in the United States is sequentially the... or seasonally the softest quarter. Typically that gets offset with some sequential strengthening outside of the United States. But as you look at our historical numbers, the first and second quarters for Protiviti are always seasonally their toughest quarters and then as year-end work, SOX compliance work, et cetera. heat up in the second half of the year, Protiviti does better.

I would say that particularly in the United States, we continued to see significant year-over-year and sequential double-digit declines in SOX work. There is clearly SOX fatigue out in the marketplace to some extent. Clients feel like they involuntarily dedicated more resources to controls than they wanted to. There is some backlash from that as we speak. So, the fact that we grew overall 9% in the quarter and then even in the U.S. we had positive year-over-year growth, it was not withstanding continuing significant declines in SOX work. So what that says is Protiviti has done quite well outside the SOX area.

In addition to internal audit, Protiviti thinks of itself as providing business consulting services principally either to the CFO or to the CIO. Things like financial investigations, financial restatements, business process effectiveness in the technology area, technology infrastructure, we've got some

really nice IT asset management engagements. We have a marketing arrangement with SAP in the application controls area. So, again, I think Protiviti is non-SOX revenue improvements in gains and accomplishments this quarter were, to a large degree, offset by a continuing soft SOX market.

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