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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Resources Global Professionals (RGP)

TONY CHERBAK is CEO and President of Resources Global Professionals (RGP), the operating subsidiary of Resources Connection, Inc. (NASDAQ: RECN). With more than 35 years of professional services, operations and financial management experience, Mr. Cherbak is responsible for RGP's global operations with a significant focus on managing and promoting the company's growth and profitability. Mr. Cherbak leads the senior management team to successfully execute RGP's business model — providing exceptional professional services to clients and offering its consultants challenging, flexible and rewarding careers. Mr. Cherbak joined RGP in July 2005 from Deloitte & Touche LLP, where he spent the majority of his career as an audit partner in the Orange County, California, office. At Deloitte, Mr. Cherbak led the firm's consumer business practice for its Pacific Southwest region and most recently served as the Partner-in-Charge of the Orange County audit practice. Mr. Cherbak graduated from Loyola Marymount University in 1978 with a B.S. in accounting.

SECTOR — BUSINESS SERVICES

TWST: Give us a history of RGP.

Mr. Cherbak: Don Murray, RGP's Founder, started the business inside of the audit practice at Deloitte & Touche. We had a consistent demand from our audit clients wanting help with projects for which they either lacked bandwidth or subject matter expertise. Within the audit practice, the only resources that would be available were the people sitting on the bench, and that was not necessarily the best thing for the client. So the thesis behind the RGP business model was to recruit exactly the right talent for the specific client situation. This might be a person that had a combination of Big Four accounting experience plus relevant industry experience who could make an immediate difference and meet the client's needs.

In 1996, the business began and was initially grown within the Deloitte organization. In 1999, there were heightened levels of concern within the SEC about auditor independence. With conflicts arising more frequently, Deloitte asked Don to find a financial partner to provide the financing for a management-led buyout of the business. Evercore Partners ultimately was chosen to provide the capital for the financing of the buyout. In 2000, RGP went public, and it has been a great business ever since. Our business model is such that it throws off significant cash, so it gives us many different options to either reinvest in the business, return capital to our investors through our stock buyback or dividend programs, or to use the cash for an opportunistic acquisition.

TWST: What is the market for professional services like right now, and what are some of the trends you are starting to see emerge?

Mr. Cherbak: Currently, the market for professional services is fairly robust. We are seeing strong growth in demand for expertise in regulatory compliance with the advent of the Dodd-Frank Act, which impacts all of our financial-institution clients. We are also seeing improving demand in M&A, data governance and are excited about the potential of the new revenue recognition standard that has recently been mandated for all companies that report financial results under U.S. GAAP or IFRS. That is a standard that we have been expecting for quite some time. We believe that it will drive a lot of business between now and 2017 when companies are required to implement it. So overall, we see various drivers in our current business, but if I had to pick one, I would say regulatory compliance is the strongest.

TWST: And you said that is particularly strong in the financial services area?

Mr. Cherbak: Yes, it's primarily in the financial services industry, as Dodd-Frank contains various provisions designed to prevent another financial crisis similar to what was experienced in 2008/2009. These new provisions include increased capital requirements, restrictions on proprietary trading, living wills or wind-up plans for systemically important financial institutions. There are innumerable rules and regulations driving demand for specialized talent to deal with these new mandated requirements that is driving our regulatory business primarily within our East Coast operations.

TWST: You are involved in six practice areas now. Is the financial sector still your largest sector?

Mr. Cherbak: Yes, financial services is still our leading industry sector accounting for slightly more than 20% of our business.

In addition, we have very strong practices in technology, pharma, health care, consumer products, aerospace and energy, among others. From a service-line perspective, accounting and finance make up roughly 50% of our business with information management making up about 20%. Supply chain management, human capital, risk management and internal audit, and legal and regulatory make up the balance. We also have an excellent crisis communications business through Sitrick and Company. The Sitrick business gives us the ability to service our clients when they need strategic or crisis communication, or they have some other need requiring concise communication skills.

TWST: While the bulk of your operations are in North America, about 19% comes from Europe and Asia. Has the softness in Europe over the last few months impacted your operations there?

Mr. Cherbak: North America is starting to grow again, Asia Pac is holding its own, but Europe has yet to catch up. Over the last 18 months, we have made several changes to the management team of our European practice, including appointing a new leader. He comes from a consulting background where he served clients and also managed a practice. He also brings a very positive attitude to the practice and has a strong sense of urgency. He has only been on the job for about a month, but so far, he has made a good impression, and I think that he is going to make a difference for us in Europe.

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TWST: You have said that one of your advantages is that you have a very strong, very diverse client base. Can you give us a flavor of what that base looks like and an idea of your retention rates?

Mr. Cherbak: Our client retention is outstanding. We deal primarily with Fortune 500 companies, and once we do work for them, we tend to retain them as long-time clients. When we do lose a client, it is generally because the client has been acquired by another company, rarely a service issue. For example, in fiscal 2014, we served all of our top-50 clients from 2013 and 2012. Our engagements generally begin with a single consultant working on one discrete project and grow from there. We have found that when a company gives us an opportunity, they are so impressed with the work of our consultants that they use us over and over again, and they will generally refer us to other departments within their company.

TWST: So you find that clients who initially use you in one sector, such as financial services, then may branch out to using you to staff other needs outside that original area?

Mr. Cherbak: Yes, absolutely. Our clients really love the work of our consultants because they bring practical knowledge to the client that comes from an average of 18 to 20 years of experience in their designated field of expertise. We go to great lengths to make sure that a client gets the right resource with the right expertise for their particular project, even down to finding the correct personality fit that blends seamlessly with the clients' personnel. This is the way that we have built our brand: one client and one assignment at a time. We are not like a large consumer-product company that has hundreds of millions of dollars to spend on advertising. So we build our brand by every hour that our consultants spend working hand in hand with our clients and let word of mouth take it from there.

TWST: Is it challenging for you to find the right people to staff these projects?

Mr. Cherbak: One of the outstanding features about our company is our recruiting machine. We very rarely encounter a problem finding the right people for our core services because we have such a strong recruiting team and have such a positive work environment. Recruiting is one of our core competencies, especially recruiting the right people for the right assignments. We have something at RGP that we refer to as our circle of quality. Great clients attract great consultants, and great consultants attract great clients.

TWST: So there are no plans to pull back in Europe?

Mr. Cherbak: No plans at all. Our client base depends upon our being able to serve their needs wherever they are located in the world. From our inception, we wanted to be able to serve big multinationals, and they depend upon us to operate where they have business. We have always let our clients dictate where we locate our offices. I think it's very important, in being able to win big enterprise-wide engagements, to have a presence in Europe and a presence in Asia in addition to our North American operations.

TWST: You said the Asian market is basically holding its own. Are you looking at making any changes in that market?

Mr. Cherbak: Together, Japan and China make up about 85% of our Asia Pacific operations. One of the factors that is currently impacting our Asia Pacific operations is the currency imbalance in Japan, something that is outside of our control. The Japanese practice is growing in their local currencies very nicely, but when you convert the yen into dollars, it doesn't show the same growth rate. That currency imbalance will reverse itself at some point. Regarding China, we believe it is a great market for us with significant potential. We are committed to gradually expanding our business in that region as client needs dictate.

TWST: What about other areas such as Latin America or Africa? Is there any market there, and is it something you are looking at entering?

Mr. Cherbak: Essentially, when we have client demands in Latin America, we service them from our existing offices in Mexico City and Miami. We haven't done much business in Africa as we haven't seen that much demand from our big multinational clients. But as that market evolves, we'll consider it over time. Like I have said previously, we let our clients be our guide as to where we locate.

TWST: What is the pricing environment like for staffing right now? What is the status with your bill rates right now?

Mr. Cherbak: Well, it's competitive as always, but this is an area where I think we have a good opportunity to gradually increase our pricing. Our average billing rate in our first quarter of fiscal 2015 was about $123 an hour. Our value proposition is having very experienced consultants, who are experts in helping clients execute on their initiatives, that we bill out at rates that are a fraction of what the Big Four or some of the other big consulting firms charge. So having the consulting capabilities we do at those highly competitive rates, we are providing real value to our clients, and I think that an incremental increase of $2 to $3 per hour will not lessen demand.

TWST: Your competitors are well-known companies with large marketing budgets. How do you position yourselves to succeed against those types of competitors?

Mr. Cherbak: You are right; they are very well-known, and many have 100-year-old brands. We position ourselves by emphasizing our value proposition. Having the experienced consultant base that we do at what I would consider to be extremely competitive pricing has, in many cases, allowed us to prevail against the large, well-known brands. However, we occasionally lose competitive proposals because a safer choice for an organization might be to go with the big name for the sake of self-preservation.

But once we get an opportunity to work with a company on a project and they experience the value that we provide, it becomes easier for them to make a decision in our favor. I spend a lot of my time meeting with clients from all over the world. I was just in Asia, and virtually every client I met or visited remarked about their satisfaction with the value that our consultants were providing at their organization. That's very encouraging.

TWST: What is your growth strategy going forward?

Mr. Cherbak: Being a professional services firm and having the great client base that we have, one of our strategies is to further increase our penetration in that client base. I believe that, for some of our larger clients, our consulting fees are almost a rounding error in terms of their overall consulting spend. We want to increase our penetration with current clients by taking share from our competitors as we believe we can provide superior value. Another growth strategy is to continually be adding new clients. We will also opportunistically expand service offerings and our geographic footprint depending upon demand from our clients.

TWST: You had strong revenue growth this quarter, which you have said is one of the most important numbers for you for the quarter. Can you talk about that?

Mr. Cherbak: In our first quarter of fiscal 2015, we grew almost 9% in terms of revenue, which was very important for us. Whenever we add revenue growth to our business model, it allows us to leverage our SG&A expenses, which then drives all of our key financial metrics. We also increased our gross margin by 150 basis points and had a 46% improvement in earnings to $5.4 million, or $0.14 a share. We improved our cash flow margin or adjusted EBITDA by 38% to $13.5 million. Those are really our key metrics, and we had improvements across the board, but it all starts with revenue growth.

TWST: You mentioned that you do tend to have a lot of cash and you have a very strong balance sheet. What are your plans for deploying that capital? Are acquisitions a part of that plan?

Mr. Cherbak: Acquisitions are always a part of the plan, along with our dividend and stock buyback programs. We look at a considerable number of different acquisition opportunities, but we are very particular about what we actually do acquire. We tend to be fairly conservative. Given that professional-service-company acquisitions are somewhat risky in that you are acquiring people, it's important to be careful how much you are willing to spend. Those assets can easily walk out the door. Right now, the M&A market is awfully expensive, so we're being extremely careful.

TWST: As you mentioned, right now, you are paying a dividend. Is that something you're looking at continuing to do?

Mr. Cherbak: We have paid a regular quarterly dividend for the past five years and have increased that dividend four years in a row. We expect to be able to continue the dividend and hope to continue to increase it a little bit each year. Our business model tends to generate a significant amount of cash, so we have been able to pay a dividend and still retain the cash that we need to run the business and to be opportunistic about potential acquisitions. We have also been buying back our stock.

TWST: Give us your background and tell us a little bit about the rest of your management team.

Mr. Cherbak: I graduated from Loyola Marymount University in 1978. I then spent approximately 27 years with Deloitte and joined RGP in 2005, and have been here ever since. Don Murray, who is our Founder and current Executive Chairman, was 20-plus years with Deloitte and has a master's degree in tax from USC. Our CFO, Nate Franke, was also 20-plus years with Deloitte and has an MBA from UCI. Kate Duchene, who is our Chief Legal Officer, is a Stanford Law graduate; she spent roughly 10 years with O'Melveny & Myers and then joined RGP right before the IPO.

Tanja Cebula was one of our first employees and started our Portland office. She is currently our Chief Innovation Officer and received her MBA at the Kellogg School at Northwestern. Tracy Stephens, who is our Chief Operating Officer, graduated from Texas A&M. Tracy was one of the principals in The Procurement Centre, which was an early-2000 acquisition for RGP that created our supply chain business.

TWST: So looking now for next year, where is your focus going to be?

Mr. Cherbak: Our main focus is going to be on revenue growth, primarily through increased penetration with existing clients. As I mentioned, when we grow our revenues, we generally see improvement in all of our other financial metrics, as much of this increase flows directly to our bottom line.

TWST: So in closing, what do you see as your most important competitive advantages, and what should investors know about the company?

Mr. Cherbak: I think that our most important competitive advantage and the most important factor for investors to understand is the power of our business model to generate considerable cash and the significance of our value proposition. We provide our clients with intellectual capital on demand that helps them in solving their most pressing problems at a fraction of the cost of our bigger competitors. We are extremely strong at executing projects. Our business model throws off a lot of cash, such that we have been able to return over $137 million to shareholders over the last three years through our stock repurchase and dividend programs. And we are very well-positioned for continued growth.

TWST: Thank you. (LMR)

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