

HEIDRICK & STRUGGLES INTERNATIONAL INC
Form 10-Q
April 29, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the transition period from _____ to _____

Commission File Number 0-25837

HEIDRICK & STRUGGLES INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in its Charter)
Delaware 36-2681268
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification Number)
233 South Wacker Drive-Suite 4900
Chicago, Illinois
60606-6303
(Address of Principal Executive Offices)

(312) 496-1200
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period of time that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated

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filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-Accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of April 26, 2019, there were 19,118,028 shares of the Company's common stock outstanding.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	March 31, 2019	December 31, 2018
	(Unaudited)	
Current assets		
Cash and cash equivalents	\$ 114,414	\$ 279,906
Accounts receivable, net	135,156	114,977
Prepaid expenses	26,179	22,766
Other current assets	29,228	29,598
Income taxes recoverable	4,952	3,620
Total current assets	309,929	450,867
Non-current assets		
Property and equipment, net	32,292	33,871
Operating lease right-of-use assets	109,780	—
Assets designated for retirement and pension plans	14,707	15,035
Investments	22,781	19,442
Other non-current assets	23,784	22,276
Goodwill	122,548	122,092
Other intangible assets, net	1,975	2,216
Deferred income taxes	34,186	34,830
Total non-current assets	362,053	249,762
Total assets	\$ 671,982	\$ 700,629
Current liabilities		
Accounts payable	\$ 9,229	\$ 9,166
Accrued salaries and employee benefits	95,330	227,653
Deferred revenue	39,157	40,673
Operating lease liabilities - current	32,213	—
Other current liabilities	28,578	33,219
Income taxes payable	12,112	8,240
Total current liabilities	216,619	318,951
Non-current liabilities		
Accrued salaries and employee benefits	44,821	57,234
Retirement and pension plans	42,744	39,865
Operating lease liabilities - non-current	90,208	—
Other non-current liabilities	4,171	17,423
Total non-current liabilities	181,944	114,522
Total liabilities	398,563	433,473

Commitments and contingencies (Note 18)

Stockholders' equity

Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued at March 31, 2019 and December 31, 2018	—	—
Common stock, \$0.01 par value, 100,000,000 shares authorized, 19,585,777 shares issued, 19,113,630 and 18,954,275 shares outstanding at March 31, 2019 and December 31, 2018, respectively	196	196
Treasury stock at cost, 472,147 and 631,502 shares at March 31, 2019 and December 31, 2018, respectively	(15,143)	(20,298)
Additional paid in capital	218,783	227,147
Retained earnings	65,201	56,049
Accumulated other comprehensive income	4,382	4,062
Total stockholders' equity	273,419	267,156

Total liabilities and stockholders' equity \$ 671,982 \$ 700,629

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Revenue		
Revenue before reimbursements (net revenue)	\$ 171,594	\$ 160,071
Reimbursements	4,680	4,587
Total revenue	176,274	164,658
Operating expenses		
Salaries and employee benefits	120,818	111,409
General and administrative expenses	34,385	35,541
Reimbursed expenses	4,680	4,587
Total operating expenses	159,883	151,537
Operating income	16,391	13,121
Non-operating income (expense)		
Interest, net	808	239
Other, net	1,643	(448)
Net non-operating income (expense)	2,451	(209)
Income before income taxes	18,842	12,912
Provision for income taxes	6,755	2,744
Net income	12,087	10,168
Other comprehensive income, net of tax		
Foreign currency translation adjustment	320	1,590
Other comprehensive income, net of tax	320	1,590
Comprehensive income	\$ 12,407	\$ 11,758
Basic weighted average common shares outstanding	19,003	18,826
Dilutive common shares	501	495
Diluted weighted average common shares outstanding	19,504	19,321
Basic net income per common share	\$0.64	\$0.54
Diluted net income per common share	\$0.62	\$0.53
Cash dividends paid per share	\$0.15	\$0.13

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2018	19,586	\$ 196	632	\$(20,298)	\$227,147	\$56,049	\$ 4,062	\$267,156
Net income	—	—	—	—	—	12,087	—	12,087
Other comprehensive income, net of tax	—	—	—	—	—	—	320	320
Common and treasury stock transactions:								
Stock-based compensation	—	—	—	—	1,343	—	—	1,343
Vesting of equity, net of tax withholdings	—	—	(160)	5,155	(9,707)	—	—	(4,552)
Cash dividends declared (\$0.15 per share)	—	—	—	—	—	(2,848)	—	(2,848)
Dividend equivalents on restricted stock units	—	—	—	—	—	(87)	—	(87)
Balance at March 31, 2019	19,586	\$ 196	472	\$(15,143)	\$218,783	\$65,201	\$ 4,382	\$273,419

	Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2017	19,586	\$ 196	805	\$(26,096)	\$226,006	\$(716)	\$ 13,315	\$212,705
Net income	—	—	—	—	—	10,168	—	10,168
Adoption of accounting standards	—	—	—	—	—	15,043	(6,089)	8,954
Other comprehensive income, net of tax	—	—	—	—	—	—	1,590	1,590
Common and treasury stock transactions:								
Stock-based compensation	—	—	—	—	1,776	—	—	1,776
Vesting of equity, net of tax withholdings	—	—	(138)	4,614	(6,847)	—	—	(2,233)
Cash dividends declared (\$0.15 per share)	—	—	—	—	—	(2,460)	—	(2,460)
Dividend equivalents on restricted stock units	—	—	—	—	—	(11)	—	(11)
Balance at March 31, 2018	19,586	196	667	(21,482)	220,935	22,024	8,816	230,489

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Cash flows - operating activities		
Net income	\$12,087	\$10,168
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,734	3,184
Deferred income taxes	336	(98)
Stock-based compensation expense	1,343	1,776
Accretion expense related to earnout payments	160	364
Changes in assets and liabilities, net of effects of acquisition:		
Accounts receivable	(20,167)	(32,024)
Accounts payable	99	(871)
Accrued expenses	(146,222)	(105,644)
Restructuring accrual	(681)	(5,642)
Deferred revenue	(1,586)	(1,772)
Income taxes payable, net	2,496	503
Retirement and pension plan assets and liabilities	1,550	1,632
Prepaid expenses	(6,499)	(6,806)
Other assets and liabilities, net	(923)	(2,276)
Net cash used in operating activities	(155,273)	(137,506)
Cash flows - investing activities		
Acquisition of business	—	(3,210)
Capital expenditures	(898)	(1,182)
Purchases of available-for-sale investments	(1,678)	(1,748)
Proceeds from sales of available-for-sale investments	113	145
Net cash used in investing activities	(2,463)	(5,995)
Cash flows - financing activities		
Proceeds from line of credit	—	20,000
Payments on line of credit	—	(8,000)
Cash dividends paid	(2,935)	(2,471)
Payment of employee tax withholdings on equity transactions	(4,552)	(2,233)
Acquisition earnout payments	(407)	—
Net cash (used in) provided by financing activities	(7,894)	7,296
Effect of exchange rate fluctuations on cash, cash equivalents and restricted cash	130	2,038
Net decrease in cash, cash equivalents and restricted cash	(165,500)	(134,167)
Cash, cash equivalents and restricted cash at beginning of period	280,262	208,162
Cash, cash equivalents and restricted cash at end of period	\$114,762	\$73,995

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All tables in thousands, except per share figures)

(Unaudited)

1. Basis of Presentation of Interim Financial Information

The accompanying unaudited Condensed Consolidated Financial Statements of Heidrick & Struggles International, Inc. and subsidiaries (the “Company”) have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Significant items subject to estimates and assumptions include revenue recognition, income taxes, interim effective tax rate and assessment of goodwill and other intangible assets for impairment. Estimates are subject to a degree of uncertainty and actual results could differ from these estimates. These financial statements and notes are to be read in conjunction with the Company’s Consolidated Financial Statements and Notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC on February 26, 2019.

2. Summary of Significant Accounting Policies

A complete listing of the Company’s significant accounting policies is discussed in Note 2, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

Revenue Recognition

See Note 3, Revenue.

Restricted Cash

The Company has lease agreements and business licenses with terms that require the Company to restrict cash through the termination dates of the agreements. Current and non-current restricted cash is included in Other current assets and Other non-current assets, respectively, in the Condensed Consolidated Balance Sheets.

The following table provides a reconciliation of the cash and cash equivalents between the Condensed Consolidated Balance Sheets and the Condensed Consolidated Statement of Cash Flows as of March 31, 2019 and 2018, and December 31, 2018 and 2017:

	March 31,		December 31,	
	2019	2018	2018	2017
Cash and cash equivalents	\$ 114,414	\$ 73,358	\$ 279,906	\$ 207,534
Restricted cash included within other current assets	106	533	108	526
Restricted cash included within other non-current assets	242	104	248	102
Total cash, cash equivalents and restricted cash	\$ 114,762	\$ 73,995	\$ 280,262	\$ 208,162

Earnings per Common Share