

HEIDRICK & STRUGGLES INTERNATIONAL INC
Form 10-K
March 13, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2017

OR

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

Commission File No. 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) (Zip Code)
(312) 496-1200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, \$.01 par value	The Nasdaq Stock Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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

Edgar Filing: HEIDRICK & STRUGGLES INTERNATIONAL INC - Form 10-K

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-Accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

The aggregate market value of the registrant's Common Stock held by non-affiliates (excludes shares held by executive officers, directors and beneficial owners of 10% or more of the registrant's outstanding Common Stock) on June 30, 2017 was approximately \$408,475,592 based upon the closing market price of \$21.75 on that date of a share of Common Stock as reported on the Nasdaq Global Stock Market. As of March 9, 2018, there were 18,813,585 shares of the Company's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 24, 2018, are incorporated by reference into Part III of this Form 10-K.

Table of Contents

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	PAGE
<u>PART I</u>	
Item 1. <u>Business</u>	<u>3</u>
Item 1A. <u>Risk Factors</u>	<u>8</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>12</u>
Item 2. <u>Properties</u>	<u>12</u>
Item 3. <u>Legal Proceedings</u>	<u>13</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>13</u>
<u>PART II</u>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>14</u>
Item 6. <u>Selected Financial Data</u>	<u>17</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>35</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>36</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>67</u>
Item 9A. <u>Controls and Procedures</u>	<u>67</u>
Item 9B. <u>Other Information</u>	<u>68</u>
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>69</u>
Item 11. <u>Executive Compensation</u>	<u>69</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>69</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>69</u>
Item 14. <u>Principal Accountant Fees and Services</u>	<u>69</u>
<u>PART IV</u>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	<u>70</u>
<u>Signatures</u>	<u>73</u>

Table of Contents

PART I

ITEM 1. BUSINESS

Overview

Heidrick & Struggles International, Inc. (“Heidrick & Struggles”) is a leadership advisory firm providing executive search, leadership consulting and culture shaping services to businesses and business leaders worldwide. When we use the terms “Heidrick & Struggles,” “The Company,” “we,” “us” and “our,” in this Form 10-K, we mean Heidrick & Struggles International, Inc. a Delaware corporation, and its consolidated subsidiaries. We provide our services to a broad range of clients through the expertise of over 380 consultants located in major cities around the world. Heidrick & Struggles and its predecessors have been a leadership advisor for more than 60 years. Heidrick & Struggles was formed as a Delaware corporation in 1999 when two of our predecessors merged to form Heidrick & Struggles.

Our service offerings include the following:

Executive Search. We partner with respected organizations globally to build and sustain the best leadership teams in the world, with a specialized focus on the placement of top-level senior executives. We believe focusing on top-level senior executives provides the opportunity for several advantages including access to and influence with key decision makers, increased potential for recurring search and consulting engagements, higher fees per search, enhanced brand visibility, and a leveraged global footprint. Working at the top of client organizations also facilitates the attraction and retention of high-caliber consultants who desire to serve top industry executives and their leadership needs. Our executive search services derive revenue through the fees generated for each search engagement, which generally are based on the annual compensation for the placed executive. We provide our executive search services primarily on a retained basis, recruiting senior executives whose first year base salary and bonus averaged approximately \$361,000 in 2017 on a worldwide basis.

The executive search industry is highly fragmented, consisting of several thousand executive search firms worldwide. Executive search firms are generally separated into two broad categories: retained search and contingency search. Retained executive search firms fulfill their clients’ senior leadership needs by identifying potentially qualified candidates and assisting clients in evaluating and assessing these candidates. Retained executive search firms generally are compensated for their services regardless of whether the client employs a candidate identified by the search firm and are generally retained on an exclusive basis. Typically, retained executive search firms are paid a retainer for their services equal to approximately one-third of the estimated first year compensation for the position to be filled. In addition, if the actual compensation of a placed candidate exceeds the estimated compensation, executive search firms often are authorized to bill the client for one-third of the excess. In contrast, contingency search firms are compensated only upon successfully placing a recommended candidate.

We are a retained executive search firm. Our search process typically consists of the following steps:

Analyzing the client’s business needs in order to understand its organizational structure, relationships, and culture; advising the client as to the required set of skills and experiences for the position; and identifying with the client the other characteristics desired of the successful candidate

Selecting, contacting, interviewing and evaluating candidates on the basis of experience and potential cultural fit with the client organization

Presenting confidential written reports on the candidates who potentially fit the position specification

• Scheduling a mutually convenient meeting between the client and each candidate

• Completing references on the final candidate selected by the client

• Assisting the client in structuring compensation packages and supporting the successful candidate's integration into the client team

Leadership Consulting. Our leadership consulting services include succession planning, executive assessment and top team and board effectiveness. Our leadership consulting services generate revenue primarily through the professional fees generated for each engagement which are generally based on the size of the project and scope of services. Leadership Consulting is currently less than 10% of our net revenue.

3

Table of Contents

Culture Shaping. Our culture shaping business uses its proprietary technology to analyze and interpret organizational cultures and drivers, and partner with clients to administer methods that develop alignment on leadership teams and desired organizational outcomes. Chief executive officers seek our guidance through our culture shaping services to create thriving organizational cultures in a variety of business situations, including:

- Shaping the culture to support new strategies and structures
- Aligning executive teams when there are new leaders and/or new roles
- Integrating cultures following mergers and acquisitions
- Helping minimize cultural barriers to change when implementing major organizational systems or processes
- Creating greater organizational agility to meet the challenges of a changing marketplace.

Our culture shaping services generate revenue through a combination of professional service and license fees related to the engagement. Culture Shaping is currently less than 10% of our net revenue.

We have announced the combination of our Leadership Consulting and Culture Shaping businesses to create Heidrick Consulting, a comprehensive offering of the firm's advisory services. We anticipate that our Leadership Consulting and Culture Shaping reportable segments will be combined into one reportable segment, Heidrick Consulting, during the first quarter of 2018.

Client base. For many of our clients, our global access to and knowledge of regional and functional markets and candidate talent is an important differentiator of our business. Our clients generally fall into one of the following categories:

- Fortune 1000 companies
- Major U.S. and non-U.S. companies
- Middle market and emerging growth companies
- Governmental, higher education and not-for-profit organizations
- Other leading private and public entities

Available Information

We maintain an Internet website at <http://www.heidrick.com>. We make available free of charge through the investor relations section of our website, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934 (Exchange Act), as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Also posted on our website, and available in print upon request of any shareholder to our Investor Relations Officer, are our certificate of incorporation and by-laws, charters for our Audit and Finance Committee, Human Resources and Compensation Committee, and Nominating and Board Governance Committee, our Policy Regarding Director Independence Determinations, our Policy on Reporting of Concerns Regarding Accounting and Other Matters, our Corporate Governance Guidelines and our Code of Business Conduct and Ethics governing our directors, officers and

employees. Within the time period required by the SEC, we will post on our website any amendment to the Code of Business Conduct and Ethics and any waiver applicable to any executive officer, director or senior financial officer.

In addition, our website includes information concerning purchases and sales of our equity securities by our executive officers and directors, as well as disclosure relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast or by similar means from time to time.

Our Investor Relations Officer can be contacted at Heidrick & Struggles International, Inc., 233 South Wacker Drive, Suite 4900, Chicago, Illinois, 60606, Attn: Investor Relations Officer, telephone: 312-496-1200, e-mail: InvestorRelations@heidrick.com.

Table of Contents

Organization

Our organizational structure, which is arranged by geography, service offering and industry and functional practices, is designed to enable us to better understand our clients' cultures, operations, business strategies, industries and regional markets for leadership talent.

Geographic Structure. We provide senior-level executive search, leadership consulting and culture shaping services to our clients worldwide through a network of 52 offices in 27 countries. Each office size varies; however, major locations are staffed with consultants, research associates, administrative assistants and other support staff. Administrative functions are centralized where possible, although certain support and research functions are situated regionally because of variations in local requirements. We face risks associated with political instability, legal requirements and currency fluctuations in our international operations. Examples of such risks include difficulties in managing global operations, social and political instability, regulations and potential adverse tax consequences. For a more complete description of the risks associated with our business please see the Section in this Form 10-K entitled "Risk Factors".

Our worldwide network includes affiliate relationships in Finland, South Africa and Turkey. We have no financial investment in these affiliates but receive licensing fees from them for the use of our name and our databases. Licensing fees are less than 1% of our net revenue.

Information by Geography. We operate our Executive Search services in three geographic regions: the Americas (which includes the countries in North and South America); Europe (which includes the continents of Europe and Africa); and Asia Pacific (which includes Asia and the region generally known as the Middle East). Our Leadership Consulting segment operates globally and our Culture Shaping segment operates in the Americas and Europe.

Americas Executive Search. As of December 31, 2017, we had 163 consultants in our Americas segment. The largest offices in this segment, as defined by net revenue, are located in New York, Chicago and Boston.

Europe Executive Search. As of December 31, 2017, we had 103 consultants in our European segment. The largest countries in this segment, as defined by net revenue, are the United Kingdom, Germany and France.

Asia Pacific Executive Search. As of December 31, 2017, we had 80 consultants in our Asia Pacific segment. The largest countries in this segment, as defined by net revenue, are China (including Hong Kong), Australia and Japan.

Leadership Consulting. As of December 31, 2017, we had 19 consultants in our Leadership Consulting segment. The largest countries in this segment, as defined by net revenue, are the United Kingdom, United States and Singapore.

Culture Shaping. As of December 31, 2017, we had 17 consultants in our Culture Shaping segment. The culture shaping consultants are primarily based in Huntington Beach, CA and approximately 81% of the net revenue is generated in the United States.

The relative percentages of net revenue attributable to each segment were as follows:

	Year Ended		
	December 31,		
	2017	2016	2015
Executive Search			
Americas	55%	53%	55%
Europe	20%	19%	17%
Asia Pacific	14%	15%	17%

Edgar Filing: HEIDRICK & STRUGGLES INTERNATIONAL INC - Form 10-K

Leadership Consulting 7 % 7 % 4 %
Culture Shaping 4 % 6 % 7 %

For financial information relating to each segment, see Note 17, Segment Information, in the Notes to Consolidated Financial Statements.

5

Table of Contents

Global Industry Practices. Our executive search and leadership consulting businesses operate in six broad industry groups listed below. These industry categories and their relative sizes, as measured by billings for 2017, 2016 and 2015, are as follows:

	Percentage of Billings		
	2017	2016	2015
Global Industry Practices	27 %	28 %	27 %
Financial Services	22	21	22
Global Technology & Services	18	21	21
Industrial	17	17	16
Consumer Markets	12	11	10
Healthcare & Life Sciences	4	2	4
Education, Non-Profit & Social Enterprise	100%	100%	100%

Within each broad industry group are a number of industry sub-sectors. Consultants often specialize in one or more sub sectors to provide clients with market intelligence and candidate knowledge specific to their industry. For example, within the Financial Services sector our business is diversified amongst a number of industry sub sectors including Asset & Wealth Management, Consumer & Commercial Finance, Commodities, Corporate and Transaction Banking, Global Markets, Hedge Fund, Infrastructure, Investment Banking, Insurance, Private Equity Investment Professionals and Real Estate.

We service our clients with global industry interests and needs through unified global executive search teams who specialize in industry practices. This go-to-market strategy allows us to leverage our global diversity and market intelligence and is designed to provide better client service. Each client is served by one global account team, which we believe is a key differentiator from our competition.

Global Functional Practices. Our Executive Search consultants also specialize in searches for specific “C-level” functional positions, which are roles that generally report directly to the chief executive officer.

Our Global Functional Practices include Chief Executive Officer & Board of Directors; Human Resources Officers; Financial Officers; Information and Technology Officers; Legal, Risk, Compliance & Government Affairs; Marketing, Sales and Strategy Officers and Supply Chain and Operations.

Our team of Executive Search consultants may service clients from any one of our offices around the world. For example, an executive search for a chief financial officer of an industrial company located in the United Kingdom may involve a consultant in the United Kingdom with an existing relationship with the client, another executive search consultant in the United States with expertise in our Industrial practice and a third executive search consultant with expertise in recruiting chief financial officers. This same industrial client may also engage us to perform skill-based assessments for each of its senior managers, which could require the expertise of one of our leadership advisory consultants trained in this service.

Seasonality

There is no discernible seasonality in our business, although as a percentage of total annual net revenue, the first quarter is typically the lowest. Revenue and operating income have historically varied by quarter and are hard to predict from quarter to quarter. In addition, the volatility in the global economy and business cycles can impact our quarterly revenue and operating income.

Clients and Marketing

Our consultants market the firm's executive search, leadership consulting and culture shaping services through two principal means: targeted client calling and industry networking with clients and referral sources. These efforts are supported by proprietary databases, which provide our consultants with information as to contacts made by their colleagues with particular referral sources, candidates and clients. In addition, we benefit from a significant number of referrals generated by our reputation for high quality service and successfully completed assignments, as well as repeat business resulting from our ongoing client relationships.

In support of client calling and networking, the practice teams as well as individual consultants also author and publish articles and white papers on a variety of leadership and talent topics and trends around the world. Our consultants often present research findings and talent insights at notable conferences and events as well. Our insights are sometimes acknowledged by major media outlets and trade journalists. These efforts aid in the marketing of our services as well.

6

Table of Contents

Either by agreement with the clients or to maintain strong client relationships, we may refrain from recruiting employees of a client, or possibly other entities affiliated with that client, for a specified period of time but typically not more than one year from the commencement of a search. We seek to mitigate any adverse effects of these off-limits arrangements by strengthening our long-term relationships, allowing us to communicate our belief to prospective clients that we can conduct searches without these off-limits arrangements impeding the quality of our work.

No single client accounted for more than 3% of our net revenue in 2017, 2016 or 2015. As a percentage of total revenue, our top ten clie