



CONFERENCE CALL

PREPARED REMARKS FROM:

Theodore S. Hanson, Chief Executive Officer, ASGN Incorporated

Marie L. Perry, Chief Financial Officer, ASGN Incorporated

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FIRST QUARTER FINANCIAL RESULTS CONFERENCE CALL

APRIL 26, 2023

PREPARED REMARKS

DISCLAIMER

Certain statements made in this news release are “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and involve a high degree of risk and uncertainty. Forward-looking statements include statements regarding our anticipated financial and operating performance. All statements in this release, other than those setting forth strictly historical information, are forward-looking statements. Forward-looking statements are not guarantees of future performance and actual results might differ materially. In particular, we make no assurances that the proposed revenue scenarios outlined in our financial guidance will be achieved. Additional examples of forward-looking statements in this press release include, without limitation, statements regarding our ability to attract, train and retain qualified staffing consultants, the availability of qualified contract professionals, management of our growth, continued performance and improvement of our enterprise-wide information systems, our ability to manage our litigation matters, the successful integration of our acquired subsidiaries and other risks detailed from time to time in our reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC on February 27, 2023. We specifically disclaim any intention or duty to update any forward-looking statements contained in this news release.

KIMBERLY ESTERKIN **ADDO Investor Relations:**

Good afternoon and thank you for joining us today for ASGN's first quarter 2023 conference call. With me are Ted Hanson, Chief Executive Officer, Rand Blazer, President, and Marie Perry, Chief Financial Officer.

Before we get started, I would like to remind everyone that our commentary contains forward-looking statements. Although we believe these statements are reasonable, they are subject to risks and uncertainties, and as such, our actual results could differ materially from those statements. Certain of these risks and uncertainties are described in today's press release and in our SEC filings. We do not assume any obligation to update statements made on this call.

For your convenience, our prepared remarks and supplemental materials can be found in the Investor Relations' section of our website at investors.asgn.com.

Please also note that on this call we will be referencing certain non-GAAP measures, such as Adjusted EBITDA, Adjusted Net Income and Free Cash Flow. These non-GAAP measures are intended to supplement the comparable GAAP measures. Reconciliations between GAAP and non-GAAP measures are included in today's press release.

I will now turn the call over to Ted Hanson, Chief Executive Officer.

THEODORE S. HANSON **CEO, ASGN:**

Thank you for joining ASGN's first quarter 2023 earnings call.

Full Year 2022 Highlights – Macro Conditions Reconfirm Business Strategy

Continuing to execute solidly in the core strategic areas of our business, ASGN's revenues for the first quarter of 2023 improved 3.5 percent as compared to the prior-year period. IT consulting revenues, including both commercial and federal government work, surpassed the 50 percent mark at \$568.4 million, or 50.4 percent of first quarter revenues, compared to 42.4 percent of revenues in the prior-year quarter. The strong growth of this business, particularly in light of macro conditions, reconfirms our strategic decision to double down on high-end, higher value consulting work for Fortune 1000 and federal government clients. We have the right group of professionals in place to successfully execute against this long-term plan, and I want to thank all of the ASGN team for your efforts this past quarter in pushing our growth strategy forward.

In contrast to commercial consulting and federal government work, the areas of our business that are more discretionary and cyclical in nature, namely assignment revenue, declined. We programmed for some of this in our guidance; however, the decline toward the end of the quarter was greater than we had initially anticipated, and this negatively impacted our Adjusted EBITDA margins. Nevertheless, at 10.9 percent for the first quarter, which is seasonally the lowest, Adjusted EBITDA margins remain solidly in the double digits. Importantly, the long-term Adjusted EBITDA margin profile of our business has not changed and is expected to further improve over time based on our move toward a more consultative model. In addition, while a leading indicator on the downside, permanent placement and creative digital marketing have historically seen an uptick in revenue as macro conditions improve, followed by more sustained rallies once the economy exits a recessionary period.

In the meantime, given market conditions, we are leveraging our variable cost structure and proactively taking down expenses in certain areas of the business, while investing in others; those actions are protecting our Adjusted EBITDA margins today and into the future. Also, our Free Cash Flow benefited from a reduction in accounts receivable DSO by 1.2 days.

ASGN's capital allocation strategy has not changed; we still believe that M&A remains the best use of and highest return on capital. Having said that, with limited deals in the pipeline at present, we expect to be more active in repurchasing ASGN shares given our view of the rather compelling share price. Our Board of Directors has recently approved a new two-year \$500 million share repurchase authorization.

With that as a background, let's discuss our segment performance for the quarter.

Q1 2023 Segment Performance

Commercial Segment – Consulting Revenues Continue to Climb

Our Commercial Segment, which predominantly services large enterprises and Fortune 1000 companies, reported first quarter 2023 revenues relatively consistent with the prior-year period on a tough double-digit year-over-year comparison.

Apex Systems, our largest division, accounted for 85.4 percent of the Commercial Segment's revenues. Revenues for the division improved 3.1 percent for the quarter, with top accounts achieving low single-digit growth and retail accounts achieving high single-digit growth year-over-year. Creative digital marketing and permanent placement revenues, which represent 14.6% of Commercial Segment revenues, declined double-digits year-over-year.

Our large enterprise, industry-diversified commercial client base provides balance and protection to the downside. As such, even with the pullback in more of our discretionary businesses, we continued to see solid progress in three out of our five Commercial Segment industry verticals in the quarter. Our Financial Services and Healthcare verticals saw single-digit revenue growth year-over-year, while Consumer & Industrial vertical revenues improved high single digits compared to the first quarter of 2022. The Technology, Media and Telecom, or TMT, and Business & Government Services verticals both declined mid-single digits.

In Financial Services, growth was driven principally by wealth management. Improvement in our Healthcare vertical revenues was largely driven by growth in Provider accounts, while Consumer & Industrial strength was led by growth in Energy, Utility and

Consumer Staples. In the TMT vertical, telecommunications and technology accounts saw pullback, with delays in work and the impact of layoffs. In Business & Government Services, aerospace and defense accounts saw solid growth during the quarter, while we saw a double-digit revenue pullback in business services.

Turning to our consulting business, our consulting offerings remain an important source of the value we provide clients and a core part of our strategic growth strategy. For the first quarter, commercial consulting revenues increased 32.7 percent year-over-year and were up 20.0 percent organically. Bookings were a record for the quarter and totaled approximately \$392 million, up 31.7 percent year-over-year. This translates into a book-to-bill of roughly 1.3 to 1 on a trailing twelve months' basis.

With such strong bookings, it is evident that our clients continue to invest in IT consulting projects. In fact, while we have seen some of our clients de-emphasize smaller discretionary projects, they are re-prioritizing their focus to other areas, such as work aimed at modernizing their systems and improving customer experiences. ASGN has been able to leverage these trends and remains favored by our clients in the consulting space as a result of our longstanding relationships, our expansive solutions portfolio, and our unique delivery model. So, let me provide some examples of our commercial consulting wins for the quarter.

In Q1, Apex Systems, in partnership with our GlideFast unit, was awarded a new contract to provide development services on the ServiceNow Platform to a global automotive company. This same client also tasked our team with digitizing, automating and optimizing its supply chain management processes. This is just one of the 13 new client wins during the first quarter in which Apex brought the client relationship to the table and GlideFast the ServiceNow capabilities in order to jointly secure the contract.

Also during the first quarter, we won a contract with a leading U.S. healthcare provider to help them deploy an application that uses artificial intelligence to detect when patients are performing an action that puts the patient at risk of falling and then send an alert for the healthcare provider to review and take the appropriate action. The goal of the project is to increase the number of rooms the application can safely monitor remotely by leveraging AI and an Apex Systems developed application.

Federal Government Segment – Provider of Countercyclical Strength and Stability

Let's now turn to our Federal Government Segment, which provides mission-critical solutions to the Department of Defense, the intelligence community and federal civilian agencies. Federal Segment revenues for the quarter were up 15.0 percent compared to the first quarter of 2022, driven by a combination of organic growth and the impact of our recent Iron Vine acquisition.

Contract backlog was over \$3.0 billion at the end of the first quarter, or a healthy coverage ratio of 2.6 times the segment's trailing 12-month revenues. New contract awards for the quarter were approximately \$75.2 million, which translates to a book-to-bill of 0.9 to 1 on a trailing 12 months' basis. We are seeing delays in project funding largely due to new multi-phased procurement cycles and an increase in award protests. Q1 is also often seasonally low for our Federal Government Segment as the government acquisition cycle tends to lag behind the budget cycle. That said, our pipeline of opportunities remains robust, and the number of projects submitted awaiting award is as high as it has ever been. So, let's turn to some examples of projects won during the first quarter.

In the quarter, our teams secured a number of re-competes and won new contracts awards. In terms of re-competes, ECS again secured the Department of Homeland Security (DHS) Web Content Management as a Service Contract in which we are supporting the DHS with enterprise content delivery, DevSecOps and cloud platform enhancements. With regards to new awards, during the quarter, ECS won a prime contract to support the modernization and agile transformation of the Army's Integrated Pay & Personnel System, which is the Army's number-one IT priority at present.

Iron Vine is also making great progress, and ECS has leveraged Iron Vine's cybersecurity capabilities to pursue new opportunities across its entire client base. For example, in the first quarter, ECS won a new contract under Iron Vine to support the Millennium Challenge Corporation with designing, building and installing in-country solutions to track infrastructure investments in Kosovo and Malawi.

This momentum has continued, and I am pleased to report that ECS has already seen several bookings in early Q2. For example, we recently won a re-compete of over \$100 million to perform advanced addressing and geospatial technology solutions for a long-standing global mail delivery and shipping customer.

With that, I'll now turn the call over to Marie, our CFO, to discuss the first quarter results and our second quarter 2023 guidance.

MARIE L. PERRY
CFO, ASGN:

Q1 2023 Financial Performance and Q2 2023 Financial Estimates

Revenues for the first quarter were \$1.1 billion, up 3.5 percent year-over-year on an as-reported basis. Excluding \$50.4 million from businesses acquired in the past 12 months, revenues were down 1.2 percent compared to the prior-year quarter.

I'd like to put the first quarter revenue results into perspective. From a seasonality standpoint, revenues in the first quarter of each calendar year tend to be lighter as many clients finalize the funding of their calendar year project budgets. Also, on a consolidated basis, we achieved over 20 percent year-over-year revenue growth in the first quarter of 2022, creating a tough year-over-year comparison. While we anticipated some softness in our Q1 guidance due to macroeconomic conditions, as Ted noted, we fell below our guidance range mainly due to further revenue declines toward the end of the quarter in our more discretionary and cyclical assignment work.

Revenues from our Commercial Segment were \$832.1 million, essentially flat year-over-year on an as reported basis and down 3.2 percent organically. Revenues from commercial consulting, the largest of our high-margin revenue streams, totaled \$271.7 million, up 32.7 percent year-over-year. Excluding the \$25.9 million contribution from GlideFast, consulting services revenues improved 20.0 percent year-over-year.

Revenues from our Federal Government Segment were \$296.7 million, up 15.0 percent year-over-year. Excluding the contribution from Iron Vine of \$24.5 million, revenues for the segment increased 5.5 percent.

Moving on to margins. On a consolidated basis, gross margin was 28.9 percent, down 100 basis points over the first quarter of last year. The compression in gross margin was mainly related to business mix, including a slightly higher mix of revenues from our Federal Government Segment, which carry a lower gross margin than commercial revenues, and a lower mix of creative digital marketing and permanent placement revenues, which have higher gross margins.

Gross margin for the Commercial Segment was 31.5 percent, down 120 basis points year-over-year primarily due to a smaller contribution from our discretionary and cyclical assignment revenues as noted. By contrast, gross margin for the Federal Government Segment was 21.6 percent, up 70 basis points year-over-year due to a smaller amount of cost reimbursable contracts and the contribution from Iron Vine.

SG&A expenses for the first quarter were \$224.1 million, up 5.7 percent year-over-year due to investments in workforce and technology made in 2022. SG&A expenses were favorable to guidance due to the highly variable nature of our cost structure, which benefited from fluctuations in our incentive compensation and from attrition in our business. SG&A expenses also included \$2.3 million in acquisition, integration and strategic planning expenses that we do not include in our guidance estimates.

As expected, interest expense increased year-over-year related to rising interest rates which impact only a portion of our debt; as a reminder, over half of our debt is fixed at below market rates. Amortization of intangible assets was higher due to our recent acquisitions.

Income from continuing operations was \$49.5 million, Adjusted EBITDA was \$123.5 million and Adjusted EBITDA margin was 10.9 percent. Our two highest margin contributors, permanent placement and creative digital marketing revenues, pressured our Adjusted EBITDA margin compared to what we had originally guided for the quarter.

At quarter end, cash and cash equivalents were \$65.0 million, and we had full availability under our \$460.0 million senior secured revolver.

Free cash flow for the quarter totaled \$68.8 million, an improvement of 48.3 percent over the first quarter of 2022. As Ted mentioned, cash flows benefited from a reduction in accounts receivable thereby improving DSO by 1.2 days.

With strong free cash flow generation and full availability under our revolver, we have ample dry powder to make strategic acquisitions. Given the limited acquisition opportunities at present, and our stock trading at such attractive levels, we deployed

\$48.8 million in cash on the repurchase of 563,200 shares of the Company's common stock during the first quarter. This week our Board of Directors approved a new two-year \$500 million share repurchase plan, replacing the prior authorization.

Turning to our guidance. Our financial estimates for the second quarter of 2023 are set forth in our earnings release and supplemental materials. These estimates are based on trends in March and April; assume 63.25 Billable Days in the second quarter, which is essentially the same as the year ago period and sequentially; and include an estimated revenue contribution of \$52.8 million from acquisitions made in the last twelve months.

We are providing wider ranges this quarter than in prior quarters to account for uncertain macro conditions at present. With that in mind, we expect macro conditions in the second quarter to be similar to that of the first, with continued softness in assignment revenues. Given the seasonality of our business with Q1 being the lowest from a revenue standpoint, revenues should increase sequentially. We expect second quarter revenues will be driven by commercial consulting and federal revenue growth, offset by continued softness in IT staffing, consistent with our peer set, and, to a lesser extent, declines in permanent placement and creative digital marketing. We also face another difficult year-over-year comparison that had over 17 percent growth in the second quarter of 2022.

In our guidance numbers, we have assumed leverage from our variable cost structure and certain cost containment efforts, as well as the lapping of the payroll tax reset in Q1. These assumptions limit the downward pressure on margins, without hampering our long-term growth drivers.

With that background, for the second quarter, we are estimating revenues of \$1.110 billion to \$1.145 billion on roughly the same number of Billable Days and against a difficult prior-year comparable. This translates to a year-over-year growth rate of minus 2.8 percent to plus 0.3 percent compared to the prior year quarter's results.

We are estimating net income of \$52.8 million to \$60.0 million and Adjusted EBITDA of \$125.0 million to \$135.0 million. We are expecting gross margins will decline year-over-year primarily due to business mix similar to more recent trends, including a greater mix of federal government work and the continued softness in assignment work. Adjusted EBITDA margins are also anticipated to decline year-over-year, but should benefit from our variable cost structure commensurate with revenue, along with other cost-control measures such as headcount attrition and limitations on discretionary spending.

Thank you, and now I'll turn the call back over to Ted for some closing remarks. Ted.

THEODORE S. HANSON
CEO, ASGN:

Evolving and Executing to Meet Customer and Market Demand

Like our peers, the difficult macroeconomic conditions are impacting our performance in the more discretionary, cyclical areas of the business. These conditions are outside of our control. What is in our control, is our ability to execute and strategically position our business to succeed throughout economic cycles. In the first quarter we did just that; we continued to evolve our business toward a more consultative model. While clients are scrutinizing spend, they are continuing to invest in IT projects that are critical for their businesses. With over 50 percent of our revenues now in high-end, higher value IT consulting work, we are shaping and evolving our operations for success in both the short- and long-term.

Importantly, we have a number of key business stabilizers in place to support our business on the downside, and we remain committed to providing leading IT services and solutions to the commercial and government end markets we serve. Thank you all for joining our first quarter call. We will now open it up to your questions. Operator?