



# CONFERENCE CALL

PREPARED REMARKS FROM:

Theodore S. Hanson, Chief Executive Officer, ASGN Incorporated

Marie L. Perry, Chief Financial Officer, ASGN Incorporated

**February 7, 2024**

## **FOURTH QUARTER AND FULL YEAR 2023 FINANCIAL RESULTS CONFERENCE CALL FEBRUARY 7, 2024 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**

#### **Vice President Investor Relations:**

Good afternoon. Thank you for joining us today for ASGN's fourth quarter and full year 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](https://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**

**Chief Executive Officer:**

Thank you, Kim, and thank you for joining ASGN's fourth quarter and full year 2023 earnings call.

### **Proving our Go-To-Market Strategy**

ASGN achieved solid results in the fourth quarter, with revenues, gross margin, and Adjusted EBITDA margin all at the top end of, or above, our guidance ranges.

During 2023, revenues totaled approximately \$4.5 billion, of which \$2.4 billion was in commercial and government IT consulting work. A highlight of our annual performance, commercial consulting revenues reached a new high-water mark, surpassing \$1.0 billion.

From a profitability perspective, ongoing expense management along with our business stabilizers contributed to an Adjusted EBITDA margin of 11.6 percent for the year.

With that as a background on our results, I'd like to highlight a few key themes to keep in mind as we review our segment performance. To start, 2023 was the first time we tested our current revenue mix and operating model in a difficult economy. Today's business is not the same as during the Great Financial Crisis or the pandemic. Therefore, we had yet to witness our current operations in an economic slowdown. However, as evidenced by our full-year results, I can confidently say that ASGN made solid progress despite macro challenges. Our unique go-to-market strategy and variable cost structure supported the business and our margins throughout the year.

Second, not only did we demonstrate that our operating model works, but we also showed that we have the right mix of businesses. Our federal government services provided countercyclical support to balance out our five diverse commercial industry verticals. Third, our longstanding, trusted client relationships drove the growth of our IT consulting revenues, and, in the fourth quarter, we officially surpassed 55 percent of consolidated revenues in IT consulting a full year ahead of our target.

These achievements resulted from proactive efforts to strategically shape and purposefully build a business that could perform well throughout market cycles. Our federal government services offer countercyclical balance to our more cyclical commercial businesses. These cyclical commercial businesses, while leading indicators on the downside, have historically seen more sustained rallies as the economy improves. Importantly, we are evolving our revenue mix, moving our way up the pyramid to provide higher-end, higher-value IT consulting work that is typically longer in duration and provides us with greater visibility and margin potential. I am certain that our operating model is well positioned as IT services demand recovers. With these themes in mind, let's turn to our segment performance, beginning with our largest segment by revenue, Commercial.

### **Q4 2023 Segment Performance**

#### **Commercial Segment – Quarterly Bookings Position Segment for the Future**

Our Commercial Segment services large enterprises and Fortune 1000 companies across five diverse industry verticals. Commercial Segment revenues for the quarter declined by low teens year-over-year. Revenues for the segment benefited from growth in our consulting business, offset by double-digit declines in the more cyclical areas of our assignment business.

Commercial consulting revenues increased roughly two percent for the quarter compared to the year-ago period, solid growth given the macro challenges and a difficult year-over-year comparison. Favorable commercial consulting bookings of approximately \$312.0 million translated to a book-to-bill of 1.2 times on a trailing twelve-month basis. Another positive, we continue to add new Fortune 1000 clients to our consulting roster.

Beyond new work, client retention rates on existing contracts remain strong, and customers are engaging our teams on longer consulting projects. Similar to the third quarter, we saw bookings weighted slightly more towards renewals than new work opportunities. As we enter the first quarter of 2024, many of our clients remain deliberate in their IT investments for the year, so

their spending on certain consulting contracts remains extended. Nevertheless, the growth in our bookings during the fourth quarter clearly indicates that our clients continue to recognize the value of ASGN's services. Our teams and operating model are well positioned to support our clients' IT roadmaps as they ramp up their spend.

Turning to our vertical performance. All five commercial industry verticals declined year-over-year. That said, we saw sequential growth on a billable-day adjusted basis in two verticals, Consumer & Industrial and TMT, and relatively flat sequential performance on a billable-day adjusted basis in the Healthcare vertical. Sequential improvements in sub-verticals included Utilities, Consumer Discretionary, Healthcare Providers, Telecom, Media, E-Commerce, and Software & Services accounts.

Our commercial bookings remained solid, with work won across multiple service areas. Our pipeline of AI work continues to grow as our clients focus on data preparation, developing use cases, and implementing their AI platforms. As such, we continue to hire subject matter experts, train our current teams, and develop AI accelerator programs, each with our customers' needs in mind. For example, Apex Systems' Application Development Team is leveraging our partnership with Microsoft to upskill our developers to become even more productive for our clients. Microsoft technology, in another example, enabled us to significantly shorten new code generation timelines for an automotive and aerospace parts manufacturer. In another instance, with the help of Microsoft Copilot, our team substantially reduced data review time at a digital health services provider.

In addition to Microsoft, Apex Systems is collaborating with several other companies' generative AI technologies. Leveraging both Salesforce and ServiceNow's generative AI technologies, we've been able to gain a holistic view of our customers' IT journeys to refine their AI roadmaps, automate solutions, and build personalized, data-driven marketing campaigns and IT schedules with improved productivity. Our team of data scientists, engineers, developers, and technical project managers have also used a combination of Microsoft Azure, Databricks, and Snowflake to help a Fortune 50 telecom company with personalization, predictive modeling, and increased revenue generation for its mass marketing campaigns.

With AI gaining traction, cybersecurity needs are also increasing. In the fourth quarter, we worked with a Fortune 25 healthcare insurer to mitigate cybersecurity risks associated with its newly acquired entities. We partnered closely with our client's IT integration team to rapidly assess and remediate over 1,000 vulnerabilities in cloud platforms ahead of their planned integration timelines. By leveraging our deep expertise in Amazon Web Services, Microsoft Azure, and hybrid cloud environments, we meaningfully reduced our client's regulatory compliance and data breach risks during this critical transaction period.

We've also integrated our public sector cybersecurity DNA to help grow our commercial work. Our professionals at ECS have developed proprietary methods for intelligence gathering, security instrumentation, and incident response, each of which has been battle-tested by the Department of Defense and is now being leveraged by our commercial clients. We believe that our combined credentials, expertise, and past qualifications will continue to drive our cybersecurity efforts across our Fortune 1000 client list.

### **Federal Government Segment – Pipeline & Bids Submitted and Awaiting Award Remains Near All-Time High**

Speaking of our public sector services, let's now turn to our Federal Government Segment, our sixth industry vertical, which provides mission-critical solutions to the Department of Defense, the intelligence community, and federal civilian agencies. Federal Segment revenues for the fourth quarter were up 9.2 percent year-over-year.

Contract backlog was \$3.0 billion at the end of the quarter, or a healthy coverage ratio of 2.4 times the segment's trailing twelve-month revenues. New awards were approximately \$56.0 million, translating to a book-to-bill of 0.8 times on a trailing twelve-month basis. Bookings this past quarter were soft due to a combination of traditional seasonality and greater-than-anticipated award deferrals into the first half of 2024. Our pipeline, as well as bids submitted and awaiting award, are each near the highest levels they have ever been. The lower bookings in Q4 resulted from a timing issue rather than lost work opportunities, and we already see a pickup in contract activity in the New Year. We expect stronger bookings in the first half of 2024.

In the fourth quarter, bookings were led by work with the US Intelligence Community and several civilian agencies. For example, we continue to manage the FBI's Cybersecurity Red and Blue Program and in Q4 we won additional work under this contract. This mission-based work is designed to secure and monitor the FBI networks from external threats and internal vulnerabilities.

In addition to work booked in the fourth quarter, ECS also announced two large multiple-award IDIQ contracts this past November that allow our government team to bid on new work in the future. With the Veterans Affairs (VA) Office of Information and Technology, we won a \$60.7 billion prime IDIQ contract. ECS has partnered with the VA since 2009, but this is the first time we

won a prime contract with this office. Under this contract, ECS will provide a full range of IT services, including technical support, project management, strategy planning, systems/software engineering, enterprise networking, and cybersecurity, amongst other services. Task orders under this IDIQ are expected to come out in the third quarter of this year and be awarded in the fourth quarter.

We also won a \$1.25 billion prime IDIQ contract with the Defense Advanced Research Projects Agency (DARPA) to provide technical, analytical, and program support. An agency of the U.S. Department of Defense, DARPA's mission is to develop breakthrough technologies for national security, by working with partners inside and outside the federal government. ECS has been a well-respected partner of DARPA for more than 30 years, and in 2018, was one of seven awardees on a \$850.0 million IDIQ. Success under this previous contract helped lead us to our award under this new, larger prime contract.

With that, I'll now turn the call over to Marie to discuss the fourth quarter results and our first quarter 2024 guidance.

**MARIE L. PERRY**  
**Chief Financial Officer:**

### **Q4 2023 Financial Performance and Q1 2024 Financial Estimates**

As Ted noted, revenue exceeded our expectations for the quarter. Fourth quarter revenues of \$1.1 billion were above the top end of our guidance range due to continued commercial contract engagement during the holiday season, growth in our commercial consulting business, and continued strength in our Federal Government Segment.

Revenues from the Commercial Segment were \$748.6 million, down 12.2 percent compared to the prior-year quarter. Revenues from commercial consulting, the largest of our high-margin revenue streams, totaled \$268.5 million, up 1.7 percent year-over-year despite difficult market conditions and a tough comparison of 37.8 percent growth in the fourth quarter of 2022. For the full year, commercial consulting revenues improved 14.2 percent on an as-reported basis and improved 8.6 percent organically. With this solid growth in our commercial consulting revenues for the year, we reached over \$1.0 billion in commercial consulting revenues in 2023, as Ted previously noted.

Growth in commercial consulting revenues was offset by an 18.4 percent year-over-year decline in assignment revenues, reflecting continued softness in the more cyclical parts of our businesses. For the full year, assignment revenues declined 16.0 percent compared to 2022.

Revenues from our Federal Government Segment were \$325.5 million, up 9.2 percent year-over-year. For the full year, Federal Government Segment revenues improved by 11.4 percent on an as-reported basis, or 4.9 percent organically.

Turning to margins. On a consolidated basis, gross margin was 28.4 percent, down 120 basis points over the fourth quarter of last year. The year-over-year compression in gross margin was largely related to business mix, including a lower mix of certain high-margin revenues within our Commercial Segment and a higher mix of lower-margin revenues from our Federal Government Segment.

Gross margin for the Commercial Segment was 32.1 percent, down 10 basis points year-over-year primarily due to the lower mix of certain high-margin assignment revenue streams, namely creative digital marketing and permanent placement revenues, mostly offset by a higher mix of high-margin IT consulting revenues. Gross margin for the Federal Government Segment was 19.9 percent, down 220 basis points year-over-year due to a higher mix of lower margin licensing revenues.

SG&A expenses for the fourth quarter were \$203.6 million, or 19.0 percent of revenues, compared to \$229.9 million, or 20.0 percent of revenues, in the prior year. This improvement was mainly due to lower incentive compensation expenses. SG&A expenses also included \$1.6 million in acquisition, integration, and strategic planning expenses that were not included in our guidance estimates.

As expected, interest expense increased year-over-year related to rising interest rates and our refinancing this past August.

Net income was \$50.3 million, Adjusted EBITDA was \$121.0 million, and Adjusted EBITDA margin was 11.3 percent.

At quarter end, cash and cash equivalents were \$175.9 million, and we had full availability under our new \$500.0 million senior secured revolver.

Free cash flow for the quarter was \$109.2 million, an increase of 68.5 percent year-over-year. We deployed \$75.4 million in cash on the repurchase of approximately 872,000 shares during the fourth quarter at an attractive average price of \$86.37.

For the full year, free cash flow totaled \$417.0 million, an increase of 54.3 percent year-over-year. We deployed \$273.1 million in cash in 2023 on the repurchase of 3.4 million shares at an average price of \$79.89. We have roughly \$273.7 million remaining under our share repurchase authorization. With strong free cash flow generation and full availability under our revolver, we have ample dry powder to make strategic acquisitions once the M&A market improves.

Turning to guidance. Our financial estimates for the first quarter of 2024 are set forth in our earnings release and supplemental materials. These estimates are based on current market conditions. Our estimates assume 62.75 Billable Days in the first quarter, 0.25 Billable Days fewer than the year-ago period and 2.75 Billable Days more than Q4 of 2023. Guidance also considers seasonality, with the first quarter traditionally the lowest of the year. It is also important to remember that the payroll tax reset occurs at the beginning of every calendar year, having approximately 100 basis points of downward impact on Adjusted EBITDA margins as we move from the fourth to the first quarter.

We expect market conditions to remain challenging in the first quarter. In our Commercial Segment, we anticipate revenues will remain soft across assignment and consulting. Declines in commercial revenues are expected to be partially offset by continued growth in our Federal Government Segment.

We expect gross margins to decline year-over-year due to a business mix similar to current trends, including a greater mix of federal government revenues and continued softness in our more cyclical commercial businesses. Our cash SG&A margin will remain relatively consistent year-over-year. In lieu of M&A, we expect to continue to allocate our free cash flow toward share repurchase.

With this background, we are estimating revenues of \$1.032 billion to \$1.052 billion for the first quarter. We are estimating net income of \$37.7 million to \$41.3 million, Adjusted EBITDA of \$104.5 million to \$109.5 million, and Adjusted EBITDA margin of 10.1 percent to 10.4 percent.

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

**THEODORE S. HANSON**  
**Chief Executive Officer:**

## **Competitively Positioned for the Future**

While we are positive about the future, all signs indicate continued softness in the near term. However, a difficult market does not mean we've taken a backseat to our client relationships. Rather, as is evident in our resilient financial performance this past year, we've worked ever harder, proactively staying close to each of our clients and continuing to hold regular strategic discussions about their IT roadmaps. I cannot thank our teams enough for your hard work these past twelve months. Each and every one of you has helped position ASGN as an IT industry leader, continuing to develop yourselves and our service offerings so that we are primed to support our clients' ongoing digital transformation needs.

And while certain IT projects have naturally been pushed to the right, they are not completely off the table. The need for IT services will be strong, and ASGN is one of the fastest ways for our clients to ramp up their investments and reengage more fully in their IT roadmaps. Our domestic footprint is as solid as it has ever been, and now, with our nearshore capabilities in Mexico also of scale, we are able to provide a deep talent pool that is highly skilled and competitively priced across multiple geographies.

As I highlighted at the start of today's call, ASGN's business today is the result of several years of thoughtful and proactive planning. We've shaped our service offerings and business segments to reflect increasing IT demand, and our competitive industry position and differentiated go-to-market strategy are aligned with our clients' needs. We will focus our efforts in 2024 on further strengthening our IT consulting capabilities, taking advantage of opportunities as we pursue higher-end, higher-value projects that drive our clients' IT efforts and position ASGN for success. Thank you again for joining our fourth quarter and full year 2023 call. Operator, please open the call to questions.