

CONFERENCE CALL

PREPARED REMARKS FROM:
Theodore S. Hanson, President and Chief Executive Officer, ASGN Incorporated
Edward L. Pierce, Chief Financial Officer, ASGN Incorporated

February 10, 2021

FOURTH QUARTER 2020 FINANCIAL RESULTS CONFERENCE CALL
February 10, 2021
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 above will be achieved. Additional examples of forward-looking statements in this press release include, without limitation, statements regarding the expected impact of the COVID-19 global pandemic on our competitive position and demand for our services; 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, 2019, as filed with the SEC on March 2, 2020 our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 as filed with the SEC on May 11, 2020. 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 fourth quarter 2020 conference call. With me are Ted Hanson, President and Chief Executive Officer, Rand Blazer, President of Apex Systems, George Wilson, President of ECS, and Ed Pierce, 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 the GAAP and non-GAAP measures are included in today's press release.

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

THEODORE S. HANSON
CEO, ASGN:

Thank you for joining ASGN's fourth quarter 2020 earnings call.

Q4 and FY 2020 Highlights; A Resilient, Successful Business Model

ASGN reported very strong results for the fourth quarter, with revenues, Adjusted EBITDA and EPS all exceeding the high end of our guidance ranges. This strength in Q4 has continued into the new calendar year, and we are seeing positive business trends in early 2021. We will look to accelerate both organic and inorganic investments into our business in the coming year to ensure that we stay relevant with our clients as well as continue to capture increased market share.

For the quarter, revenues totaled approximately $1.01 billion, well ahead of our guidance of $968.0 million to $988.0 million. As a result of our strong fourth quarter performance, full year 2020 revenues improved year-over-year and reached nearly $4.0 billion, a true testament to the resiliency of our business.

ASGN's success in 2020 can be attributed to several key factors including: focusing on IT services and solutions with industry expertise, targeting large strategic accounts in the commercial and government end markets, and utilizing our unique contract deployment model that enables our variable cost structure. Together, the ASGN team never lost focus on our operations or our execution, and I want to thank all of our employees who remained committed to our clients during these difficult times.

Smart Planning - Relying on the Past, While Positioning for the Future

As I mentioned on our Q1 call, with over three decades since our founding, the current global pandemic is not the first economic downturn ASGN has experienced. As a result, we entered COVID-19 with a good sense of how our business might perform in an economic downturn even if we could not predict the type of disruption a global pandemic would have on the overall business environment. First, we expected our revenues and gross profit would ebb and flow with the market. Second, given our positioning as an IT services and consulting firm to the commercial and government markets, we anticipated we'd be able to maintain our EBITDA margins and generate solid free cash flow.

And we did exactly that; Adjusted EBITDA margins of 11.5 percent for the fourth quarter were well above the high end of our guidance range for Q4. For the full year, Adjusted EBITDA margins were 11.1 percent.

Free cash flow totaled $82.7 million for the quarter and $392.2 million for the full year. As a result of our solid free cash flow this past year, we successfully closed four acquisitions without taking on additional leverage. Between the cash we have on the balance sheet, our strong free cash flow and our very modest leverage, we remain acquisition-ready in 2021.

As we execute against our capital allocation strategy, with the marketplace strengthening, we will reintroduce certain costs back into the business in 2021 to accommodate the increased demand for our services. The Apex Segment is a great example of this increased demand. The Segment displayed considerable strength throughout Q4, including in the final two weeks of the year, something we have not traditionally experienced. To discuss this in further detail, let's now turn to our segment results, beginning with Apex.

Q4 2020 Segment Performance

Apex Segment - Consulting Strength Returns

Apex, our largest segment, which includes Apex Systems and Creative Circle, services clients across multiple commercial end markets. For the fourth quarter, the Apex Segment generated revenues of $619.1 million, or 61.2 percent of total revenues, down 3.5 percent year-over-year. Sequentially revenues for the segment were up 3.9 percent and 9.9 percent adjusted for the 3.5 fewer Billable Days in the quarter.

Apex Systems in Q4 achieved slight positive growth year-over-year, while Creative Circle declined double digits. Importantly, both Apex Systems and Creative Circle continue to rebound from the slowdown in the second and third quarters of 2020. Apex Systems exited the fourth quarter at weekly volumes above pre-COVID-19 levels seen in early March 2020. Creative Circle's revenues, while down from the prior year, continued to move higher with digital-related skill placements driving this growth.

Revenues for Apex Systems demonstrated some notable trends in the fourth quarter. Three of our five reported industries exhibited positive growth year-over-year. Financial Services accounts maintained their double-digit growth rate, Healthcare accounts accelerated to mid-single digit growth rates, and Services, which includes government and business accounts, achieved single-digit growth rates.

The two industry verticals that were down year-over-year, Consumer & Industrial and TMT, were up sequentially. Within Consumer & Industrials, consumer staples, e-commerce and utilities performed solidly, while retail, energy, hospitality and transportation remain in decline. Within TMT, Technology customer accounts increased year-over-year and sequentially.

Top accounts achieved low single-digit growth rates for Q4, while retail and branch accounts declined mid-single digits as compared to the prior year.

Gross margins for the Apex Segment were 29.5 percent, down just slightly from the prior-year period due to lower permanent placement business attributable to COVID-19.

Importantly, we continue to grow our commercial consulting revenues. Consulting revenues for the commercial business totaled $127.6 million, up 19 percent year-over-year. Gross margin for our consulting work is higher than the overall gross margin in commercial. Additionally, our pipeline of consulting work grew again for the quarter at double-digit rates over the prior period.

ASGN's high-end consulting offering remains an important source of the value we provide our clients, so we continue to make acquisitions that expand our consulting capabilities. In September of 2020, we acquired LeapFrog, a specialized consultancy that focuses on enterprise-scale business transformation services to Fortune 500 clients in the financial services, insurance and healthcare industries. Under the Apex umbrella, LeapFrog has continued to benefit from greater access to industry-leading methodologies as well as a broader talent pool. At the same time, LeapFrog has provided Apex subject matter expertise and long-standing client relationships.

We are also seeing traction with our previous acquisition, Intersys, where we have secured new contracts in cloud strategy and Dev-Ops engagements. Other project areas that are driving revenues include those in application and project management skill areas such as Java, Digital, ERP and cloud.

ECS - Strong Performance In-Line with Expectations

Let's now turn to ECS, which provides mission-critical solutions to the Federal Government, including the Department of Defense, intelligence agencies and other civilian agencies. ECS recorded another quarter of strong revenue growth, with Q4 2020 revenues of $263.2 million, or 26 percent of total revenues, up 12.7 percent year-over-year. As you may recall, in Q4 2019, ECS' performance was stronger than we had initially anticipated due to a customer-driven early purchase of software licenses. Even with this headwind, ECS outperformed our initial expectations of 10 percent growth year-over-year, primarily due to the continued high demand from our federal government customers for artificial intelligence and machine learning services, an increased volume of cloud services and solutions provided and new opportunities presented through recent acquisitions.

For the full year, ECS revenues topped $1.0 billion for the first time since its acquisition in 2018. It was our goal when acquiring ECS that we would reach $1.0 billion in revenues within five years of the acquisition. With ECS' continued out-performance, including higher organic growth than growth through M&A, I am pleased to report that we accomplished this goal well ahead of schedule.

We've seen minimal impact on ECS' business as a result of COVID-19, and ECS' new business pipeline remains robust. The Segment was awarded approximately $119.2 million in new business in the fourth quarter and maintained a book-to-bill of 1.0 to 1.0 on a trailing twelve months' basis, same as the end of the preceding quarter. Contract backlog totaled $2.65 billion at the end of the fourth quarter or a healthy coverage ratio of 2.6 times ECS' trailing 12-month revenues.

We do not see our pipeline of ECS work slowing. Early indications show that the Biden Administration will make IT modernization and cybersecurity, both key services ECS provides its clients, major focus areas early in President Biden's term.

Key contracts won in Q4 2020 included: providing IT solutions to the Defense Information Systems Agency; supporting the Department of Health Services' Home and Community Based Services programs; and offering IT technology and services to the United States Marine Corps Department of Manpower and Reserve Affairs.

Similar to our commercial end market, we continue to acquire in the government space. In October, we welcomed Skyris to ECS. Skyris' team is focused on cutting-edge and technically complex DoD, intelligence community and other federal civilian programs and missions. Skyris is one of the largest providers of remote sensing data and scientific expertise to the National Geospatial-Intelligence Agency.

In December, we acquired ISM, which offers industry-leading expertise in Internet of Things, IT services and operations management. ISM is one of a very small number of Elite ServiceNow partners in the government space. Both Skyris and ISM have been fully integrated into ECS' business and are actively partnering on projects with ECS.

As we continue to build and strengthen our ECS Segment, just one month ago, we announced several new leadership positions within the Segment, including John Heneghan as ECS' Chief Operating Officer. John is a veteran of the ECS team, since 2017 was ECS' Senior Vice President of enterprise solutions. John has been instrumental in not only driving ECS' organic growth, but also integrating the acquisitions we just discussed. John has two decades of experience in IT product development, digital transformation and emerging technologies, and I am excited to welcome him into this newly expanded role.

Oxford - Recovery Continues

Turning to our last segment, Oxford. Oxford offers on-demand consulting talent for commercial IT, healthcare, life sciences and engineering clients as well as permanent placement talent through our CyberCoders division. The Oxford Segment reported revenues of $129.1 million for the fourth quarter of 2020, and while down year-over-year, was up 1.5 percent sequentially driven by revenue per Billable Day growth of 9.2 percent for Oxford's core services and solutions business.

Positioned Well for 2021

I am very pleased with ASGN's performance this past year. Between the organic growth of our commercial and government end markets and the addition of several strategic acquisitions, we've positioned our company well for success in 2021 and beyond. Importantly, the marketplace is strengthening, and our pipeline of opportunities remains robust. Before speaking about future opportunities and our goals for 2021, I'll turn the call over to Ed Pierce, our CFO, to discuss our Q4 2020 performance and our Q1 2021 guidance in further detail.

EDWARD L. PIERCE
CFO, ASGN:

Q4 2020 Financial Performance and Q1 2021 Financial Estimates

As Ted mentioned, our financial performance for the quarter was well above our guidance estimates driven by strong sequential growth of our commercial divisions and the double-digit growth of our federal government business.

For the second consecutive quarter, revenues were above $1.0 billion, reflecting only a slight decline year-over-year. Net income and Adjusted EBITDA for the quarter were up both year-over-year and sequentially. Our Adjusted EBITDA margin of 11.5 percent was the highest quarterly margin since the third quarter of 2019.

Commercial revenues for the quarter were $748.2 million. Although down mid-single digits year-over-year, quarterly revenues have increased sequentially since the second quarter. Commercial revenues for the fourth quarter were up 3.4 percent sequentially despite 3.5 fewer Billable Days, reflecting the 9.4 percent sequential increase in revenues per "Billable Day". Both commercial segments and all five of our industry verticals were up sequentially.

Permanent placement revenues for the full year were approximately 2.6 percent of total revenues and are no longer significant to our consolidated results for disclosure purposes. Consequently, we will not present these revenues separately and instead will include them in assignment revenues. All prior periods will be recast for this change in presentation.

Federal government revenues for the quarter were $263.2 million, an increase of 12.7 percent year-over-year despite a challenging Q4 2019 comparable. This strong double-digit, year-over-year growth was driven by a number of factors, including increased volume on certain existing programs, new contract awards and the contribution from the businesses acquired. ECS' revenues were down sequentially due the surge in revenues in Q3 under two government programs that coincided with the end of the Federal Government's fiscal year.

Gross margin for the quarter was above the high end of our guidance estimates, and our commercial and federal businesses were both up sequentially. On a year-over-year basis, our gross margin was down related to changes in business mix. These changes included a lower mix of revenues from our high margin creative marketing and permanent placement services and a higher mix of revenues from our federal government business that carries a lower gross margin than our commercial business.

SG&A expenses were 17.8 percent of revenues, a year-over-year reduction of approximately 130 basis points. The improvement in the SG&A margin reflected, among other things, effective expense management by our operating units and lower incentive compensation expense. We anticipate our expense margin will increase over the course of this year as COVID-19-related restrictions are relaxed and we make the necessary investments in our operating divisions to support growth.

Net income for the quarter was $55.4 million, up 41.0 percent year-over-year. As a reminder, net income for Q4 of last year included a one-time charge of $18.9 million, or $14.0 million after income taxes, related to the write-off of deferred loan costs on our Senior Secured credit facility. This write-off resulted from a debt restructuring in November 2019, which included the issuance of $550.0 million in senior unsecured notes and the pay down of our Senior Secured credit facility.

EBITDA and Adjusted EBITDA for the quarter were both up year-over-year. As previously noted, our Adjusted EBITDA margin was above our guidance estimates and up 20 basis points year-over-year. EBITDA for the full year was $400.1 million, up slightly from 2019, while Adjusted EBITDA was down 2.2 percent related to lower stock-based compensation expense.

Free Cash Flow for the quarter was $82.7 million, which benefited from the deferral of payroll taxes of $24.9 million under the CARES Act. The conversion rate of Adjusted EBITDA into Free Cash Flow was 71.1 percent. Cash used for investing activities included $34.7 million for acquisitions and $4.3 million for capital expenditures.

At quarter end, cash and cash equivalents were $274.4 million, up 19.4 percent from the end of the preceding quarter. There were no outstanding borrowings under our $250.0 million revolving credit facility, and our Senior Secured Debt leverage ratio was 1.14 to 1.0, well below the maximum allowable ratio of 4.00 to 1.0.

Our financial guidance estimates for the first quarter this year are set forth in our earnings release and supplemental materials. These estimates are based on current production trends and assume no significant deterioration in the markets we serve. These estimates are as of the date of our earnings release and consequently, any worsening of the pandemic could adversely affect results for the quarter.

For the first quarter of 2021, we estimate revenues of $1.0 billion to $1.02 billion, net income of $42.6 million to $46.2 million and Adjusted EBITDA of $101.0 million to $106.0 million.

For our commercial business, we expect revenues for the first quarter to be in line with or slightly up from the fourth quarter of 2020, which considers the typical latency in spending at the beginning of the year on recently-approved capital projects. For the federal government business, revenues are expected to be up double digits year-over-year, but down low single digits sequentially.

Our estimates include the effects of the payroll tax reset, which occurs at the beginning of each year. These annual resets result in lower gross and Adjusted EBITDA margins in the first quarter. Our SG&A expenses include sequential increases for additional headcount investments to support the expected growth of our commercial business, as well as increases in other expenses that were curtailed due to COVID-19. Certain of those expenses, such as travel and entertainment, will be gradually reintroduced back into the business and weighted more to the second half of the year as COVID-19 restrictions are relaxed.

Thank you for your time and I will now turn the call back over to Ted for some closing remarks.

THEODORE S. HANSON
CEO, ASGN:

Strategic Positioning for Future Growth

2020 was unprecedented, and while the challenges to our global economy may have been unparalleled to anything we've experienced before, our growth and resiliency as a company this past year is something for which I could not be prouder.

ASGN enters 2021 on solid footing and ready to face our customers' greatest IT needs. Since the end of the third quarter of 2020, our customers have been increasingly confident and continue to invest in their technology roadmaps. Supporting our clients' digital transformation efforts in 2021 will remain the core part of our service offering.

Smart capital deployment is also cornerstone of our overall business model, so while we invest in our organic growth, we will remain active in M&A. In 2020, we invested a total $186.2 million in M&A. We believe that M&A is the best use of our free cash flow at this time, and in 2021 we plan to bring strategic acquisitions in both the commercial and government end markets into our business at an even higher pace and scale than before. Our M&A pipeline remains active, and we will look to execute acquisitions in the commercial and government end markets that provide us with new solution capabilities, industry expertise or contract vehicles. Consistent with our previous acquisitions, we will be disciplined in our purchase price, acquiring with cash on hand whenever possible and ensuring that the companies we acquire are accretive to growth, EBITDA and margin.

While none of the world or market events of this past year could have been expected, when it came to ASGN's performance, and, in particular, our solid EBITDA margins and strong free cash flow generation, those results were something I did anticipate. I believe this, because we positioned our business well so that we could consistently execute even in the event of a global economic downturn. We focused on the mission-critical IT needs of our long-standing clients. We emphasized smart capital deployment, generating strong liquidity and using our free cash flow in the best interests of our company and our stockholders. And, most importantly, we prioritized our employees' health and well-being, ensuring our professionals could work efficiently and safely in a remote environment.

The dynamics of the working world have changed, and while I anticipate that ASGN will continue to work remotely through at least the first-half of this year, as is the case with our clients, I expect our business will remain on a solid growth trajectory. Just like the focus of the projects we execute for our clients, ASGN has positioned its business for the future of work, and we look forward to continuing to share our success along the way.

That concludes our prepared remarks. On behalf of our entire company and Board of Directors, we thank you for your continued support of ASGN. We will now open up the call to your questions.