

CONFERENCE CALL

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

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FOURTH QUARTER AND FULL YEAR 2021 FINANCIAL RESULTS CONFERENCE CALL
FEBRUARY 9, 2022
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, 2020, as filed with the SEC on March 1, 2021. 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 and full year 2021 conference call. With me are Ted Hanson, Chief Executive Officer, Rand Blazer, President, 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 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 fourth quarter 2021 earnings call.

Q4 and FY 2021 Highlights - Impressive Quarter to Close a Strong Year

The fourth quarter capped off an extremely productive year for ASGN, with momentum building throughout Q4 and positioning us very well for 2022. I want to express my gratitude to all of my teammates at ASGN for your exceptional performance and dedication to our company and our clients this past year. Your efforts are the reason why ASGN is a market leader.

Beginning with the fourth quarter, revenues totaled $1.1 billion, up 17.0 percent year-over-year and ahead of the top end of our guidance range. Adjusted EBITDA totaled $130.3 million, an improvement of 26.0 percent year-over-year and also surpassing the high end of guidance. Outperformance of the Commercial Segment, led by our consulting business, along with higher productivity across the company drove our progress in the quarter. Our Federal Government Segment experienced an improving business mix resulting in impressive EBITDA and gross margins. More on that shortly.

Our success in the final quarter of 2021, combined with the strength of the prior three quarters, resulted in record full year revenues of $4.0 billion and Adjusted EBITDA of $483.1 million, increases of 14.5 percent and 23.0 percent year-over-year, respectively. Our Commercial Segment accounted for $2.9 billion, or 73.0 percent of consolidated revenues in 2021, while our Federal Government Segment, accounted for $1.1 billion, or 27.0 percent of total annual revenues.

Free Cash Flow from continuing operations totaled $246.9 million for 2021. Over the past year, we maintained a very balanced and flexible approach to capital allocation, investing in our organic growth, making strategic acquisitions that support our long-term growth strategy and providing returns to our shareholders. During 2021, we spent $181.3 million on the repurchase of our common stock, of which $13.0 million was under the new two-year $350.0 million repurchase plan approved by our Board of Directors in December of last year. While we will leverage our share buyback program this year, we continue to believe that M&A remains our best use of and highest return on invested capital, and I will provide an update on our recent acquisitions momentarily.

Ultimately, the acceleration of our revenue growth throughout Q4, the momentum we are witnessing in Q1 to-date and our first quarter 2022 guidance, which Ed Pierce will discuss shortly, are all indications that our business remains on an upward trajectory. While nearly all of our employees continue to work remotely, we are not experiencing any impacts of note from the recent surge in the pandemic. Our productivity and volume of work remain very high. Keep in mind that as a leading provider of IT services and solutions, our business has very steady and predictable trends. These predictable trends include not just our revenue growth, which remains above market, but also our continued margin and cash flow expansion. In other words, ASGN is not at the whims of fleeting technology trends. Our job is to implement technology and business solutions that are in demand by our clients. These digitization and transformational trends are in their early innings of growth and have long trajectories ahead of them. This type of work provides us with a strong pathway for continued success across the end markets we serve.

With that said, let's turn to more detail on our segment performance for the fourth quarter, beginning with our largest segment, Commercial, which services large enterprises and Fortune 1000 companies.

Q4 2021 Segment Performance

Commercial Segment - Firing on all Cylinders

Our Commercial Segment had a fantastic fourth quarter driven by strength in all service areas. For the fourth quarter of 2021, the Commercial Segment generated revenue of $790.5 million, up 24.1 percent year-over-year and up 22.7 percent organically. Growth in the segment reflected double-digit growth in commercial consulting, creative marketing and permanent placement services. Apex Systems continued to report very strong growth and for the second time Creative Circle and CyberCoders surpassed their 2019 quarterly revenues.

From an industry perspective, all five commercial industry verticals for Apex Systems experienced growth during the quarter, with every vertical achieving double-digit growth on a year-over-year basis.

Apex System's Commercial & Industrial accounts were up double digits both year-over-year and sequentially due to the continued strength across all sectors with particularly high growth in retail, energy, utilities, airlines and air freight accounts.

Our Technology and Telecommunications, or TMT, vertical was up double digits year-over-year. Within the vertical, technology and telecommunications accounts saw significant growth over Q4 2020.

Government & Business Services was up double digits, led by Business Services with high double-digit growth, while Aerospace & Defense and Government accounts were down roughly 1.0 percent versus Q4 2020.

Financial Services accounts were up high-single digits with the largest growth across Insurance, FinTech and Wealth Management accounts.

Healthcare continued with double-digit growth driven by both Provider and Payer accounts.

Revenues derived from our work in applications and project management, including agile, digital, ERP and cloud, continued to perform well. Apex Systems' top accounts and retail and branch accounts all achieved double-digit growth rates for Q4. From an industry perspective for the quarter, top account revenue at Apex Systems was up in all five industry verticals we target, while Creative Circle also posted positive growth across their top accounts. Permanent placements at CyberCoders exceeded our expectations.

Gross margin for the Commercial Segment was 32.5 percent, up 130 basis points from Q4 of last year due to growth across our high-margin commercial consulting, creative digital marketing and permanent placement businesses. EBITDA margins were flat compared to Q4 2020. Higher gross margin and higher productivity in our workforce was offset by higher variable incentive compensation due to the outperformance of our expectations for the quarter as well as investments in new headcount to support demand opportunities across our account portfolio.

We also continued to expand our commercial consulting revenues during the quarter. Commercial consulting revenues totaled $191.7 million in Q4 2021, a significant increase of 75.2 percent year-over-year and up 67.2 percent organically. As you may recall at our Investor and Analyst Day Conference this past September, we projected to reach $595.0 million in commercial consulting revenues for 2021. I am pleased to report that with our strong close to the year, commercial consulting revenues totaled $641.2 million.

Growth in consulting revenues was primarily driven by existing accounts, and our pipeline of future opportunities continues to grow at high double-digit rates and is trending positively in the first quarter.

ASGN's consulting offerings remain an important source of value we provide our clients, so we continue to build out our solution strengths and identify acquisition opportunities that expand our consulting capabilities in service to our clients. To illustrate our solution capabilities and growth, our recent acquisition of Avaap's Infor business unit gave us added capability in healthcare and manufacturing ERP solutions. With this added strength, we won a major opportunity in Q4 to support a prestigious hospital's ERP process and move to the cloud. While this account was a longstanding account for Apex Systems, the added ERP solutions strength gave us the opportunity to expand our relationship by bringing this solution to one of our existing clients. This is a great example of how we are building and acquiring new solutions and taking that strength to market.

Federal Government Segment - Improved Business Mix and Margin

Now, let's now turn to the Federal Government Segment, which provides mission-critical solutions to the Department of Defense, intelligence agencies and other civilian agencies. Revenues for the Federal Government Segment totaled $263.3 million for the fourth quarter, consistent with the prior-year period on a very tough comparison. Flat year-over-year revenue was the result of the discontinuation of a low margin contract offset by revenue generated from our IndraSoft and ERPi acquisitions. Importantly, even with this difficult revenue comparison, we saw an improving business mix that resulted in an Adjusted EBITDA margin of 11.3 percent for the quarter, up 230 basis points year-over-year. Gross margin also improved and was up an impressive 560 basis points year-over-year.

The Federal Government Segment's new business pipeline remained strong with $131.1 million in new business awarded during the quarter and a book to bill of 1.1 to 1 on a trailing twelve month basis. Contract backlog totaled $3.0 billion at the end of the fourth quarter, a healthy coverage ratio of 2.6 times the segment's trailing 12-month revenues.

In Q4, examples of some of the contracts awarded to our Federal Government Segment included three contracts that were plus-ups for important mission critical work, including an award to support activities in the development, fielding and sustainment of AI solutions for the DoD Combatant Command missions, a second award that focuses on licenses, training and experience in AI-related analytical tool kits for the Air Force and a third award for AI-related labeling and expertise for classified mission activities.

Also during the quarter we won a contract to provide system engineering, technical and advisory services to the Defense Advanced Research Projects Agency's Tactical Technology Office; a contract to provide software engineering and application modernization to the Air Force; and a follow-on contract to provide mobile application development and mobile device management for a premier law enforcement customer.

With that, I will now turn the call over to Ed Pierce, our CFO, to discuss the fourth quarter financial results and our first quarter 2022 guidance.

EDWARD L. PIERCE
CFO, ASGN:

Q4 2021 Financial Performance and Q1 2022 Financial Estimates

As Ted mentioned earlier, our financial performance for the fourth quarter and the full year 2021 exceeded our guidance estimates. This performance reflected double-digit growth of our Commercial Segment, solid performance of our Federal Government Segment, the contribution from acquisitions and the expansion in gross and Adjusted EBITDA margins in both business segments.

For the quarter, revenues were slightly above $1.0 billion, up 17.0 percent year-over-year and included $41.0 million from acquisitions made after Q3 of 2020. Gross profit, operating income and Adjusted EBITDA were all up year-over-year and grew at higher rates than revenues.

Revenues from our Commercial Segment were $790.5 million, up 24.1 percent year-over-year and for the third straight quarter, all commercial divisions were up year-over-year. The revenue contribution from the business acquired earlier in 2021 was approximately $8.8 million.

Revenues from our Federal Government Segment were $263.3 million, in line with last year and our guidance estimates. The revenue consistency for the quarter was achieved despite a difficult prior year comp, which had benefited from higher program spending on certain cost reimbursable contracts and from revenues on a web services project that was not renewed in Q3 of 2021. Revenues for the quarter included a contribution of $32.2 million from acquisitions made after Q3 of 2020.

Gross margin of 29.8 percent exceeded the high end of our guidance estimates and was up 310 basis points over Q4 of last year. Both business segments reported year-over-year expansion in gross margin driven by improvements in business mix.

Gross margin for the Commercial Segment was 32.5 percent, up 130 basis points year-over-year. This expansion was the result of double-digit growth of our high-margin commercial consulting and creative digital marketing services.

Gross margin for the Federal Government Segment was 21.6 percent, up 560 basis points as a result of changes in business mix. This improvement resulted from: (i) a lower level of revenues from certain cost reimbursable contracts that had revenue surges in 2020 and from a low-margin web services project, which was not renewed in Q3 of 2021, (ii) the contribution from high-margin businesses acquired in 2021 and (iii) higher profitability on certain firm-fixed-price contracts whose initial term ended during the year.

SG&A expenses were $202.4 million, up 32.3 percent year-over-year. This increase related to the high year-over-year growth in the business, including double-digit growth of our high-margin commercial revenue streams, which carry a higher level of expense than IT staffing and federal government services, higher headcount investments to support growth and higher incentive compensation and healthcare expenses that were both down in 2020 from historical levels.

Income from continuing operations was $65.4 million, up 35.4 percent year-over-year. Adjusted EBITDA was up 26.0 percent year-over-year reflecting expansion of 90 basis points in our Adjusted EBITDA margin to 12.4 percent.

At year end, cash and cash equivalents were $529.6 million and there were no outstanding borrowings under our $250.0 million revolving credit facility. Our Senior Secured Debt leverage ratio was 1.02 to 1.0.

Our financial estimates for the first quarter 2022 are set forth in our earnings release and supplemental earnings materials. These estimates are based on current production trends, assume 63 Billable Days in the quarter (which is one more day than Q1 of 2021) and include an estimated revenue contribution of $39.6 million from acquisitions made after Q4 of 2020. Our estimates also consider the payroll tax reset, which occurs at the beginning of every year, which results in lower gross and Adjusted EBITDA margins in the first quarter.

For the first quarter of 2022, we estimate revenues of $1.033 to $1.053 billion, income from continuing operations of $54.8 to $58.4 million and Adjusted EBITDA of $117.3 to $122.3 million.

With respect to the full year 2022, we expect revenues will grow above market rates and gross margin will expand primarily as a result of double-digit growth of our high-margin commercial consulting and creative digital marketing services. We expect our Adjusted EBITDA margin for the year will be in line with last year as we continue to invest in our operating platform to support high, sustainable growth in the business.

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

THEODORE S. HANSON
CEO, ASGN:

Updates on Leadership and Favorable Industry Tailwinds

As many of you are aware, over the past several months we've announced a number of leadership changes, each of which has been part of our long-term succession planning. I'd like to provide a brief update on these changes beginning with the promotion of Rand Blazer to President of ASGN.

Rand is approaching his 10th anniversary with ASGN and 15 years leading Apex Systems. Since joining ASGN, Rand has been integral to our company's growth and, in particular, the expansion of our commercial consulting business. As President of ASGN, Rand will be positioned to continue to provide leadership across our units and drive our growth strategies.

We are also installing ready-made leaders at the helm of each of our operating units. Sean Casey, with more than 25 years in successive roles within the business, has assumed Rand's former role as President of Apex Systems, while John Heneghan, whom we spoke about in detail last quarter, has become President of ECS. Both Sean and John have worked hand-in-hand with our executive management team since joining ASGN and are well-equipped to succeed in their new positions.

Along with these previously announced promotions, we continue to make investments in adding professionals to our team who will help drive our revenue growth and margin expansion. Some of these professionals have joined us originally, some from peer firms and others arrived through acquisitions. ASGN's ability to not only identify and fund strategic acquisitions, but to also integrate them quickly and efficiently is a competitive advantage. I'm pleased to note that as of December 31st, all of our previously announced acquisitions have been fully integrated.

This then ultimately brings me back to where we began our discussion today - our sustainable business model. ASGN has evolved its business to be well aligned with multi-year IT and digital transformation trends. Each of these trends are in their early innings of growth and present strong tailwinds going forward. As evident in our financial performance, our business has already benefited from these secular trends, and we are well positioned to continue on an upward trajectory. In fact, we are tracking ahead of the model on which our three year targets introduced this past September were set.

It is these favorable industry tailwinds that will provide us with a consistent pipeline of higher-margin consulting work going forward and help to grow our historically strong Free Cash Flow generation capabilities. We will deploy this capital into further

expanding our high-margin consulting services to boost our growth and ultimately our profitability for the long term. ASGN is in the right end markets, with the right capabilities and has the right team in place to maintain our leadership in the commercial and government spaces. I am confident that our unique business model, strong cash flow generation and strategic capital deployment will continue to position us for success going forward.

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