

CONFERENCE CALL

PREPARED REMARKS FROM:
Theodore S. Hanson, Chief Executive Officer, ASGN Incorporated
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October 26, 2022

THIRD QUARTER 2022 FINANCIAL RESULTS CONFERENCE CALL
OCTOER 26, 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, 2021, as filed with the SEC on March 1, 2022. 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 third quarter 2022 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 third quarter 2022 earnings call.

Q3 2022 Highlights – Well Positioned for Strong Demand

Before we begin, on behalf of the entire ASGN team, I would like to welcome Marie Perry to her first earnings call as our CFO. We're excited for Marie to participate in today's discussion. With that said, let's now turn to our third quarter results.

As is evident from our Q3 financials, growth continued to build quarter over quarter, and demand for our services and solutions remained strong. Revenues, which were a record for the third quarter, came in above the mid-point of our guidance range for Q3 and totaled $1.2 billion, up 11.6 percent year-over-year. This growth was largely driven by our Commercial Segment and specifically our consulting business. This record top-line performance would not have been possible were it not for the incredible efforts of all of our professionals in service of our clients, as the ASGN team collectively strives to meet and exceed their expectations. Consequently, these results bring us closer to our goal of $6.0 billion in revenues by 2024. I'll provide some comments on our three-year plan later in today's call.

Our Commercial Segment accounted for 75.1 percent of consolidated revenues, while our Federal Government Segment accounted for the remaining 24.9 percent of revenues. The strength and breadth of our account portfolio contributes to our success, with virtually almost all of our revenues derived in the U.S. and largely from Fortune 1000 accounts.

Moving down the income statement, Adjusted EBITDA of $148.7 million was also above the mid-point of our guidance range, improving 8.9 percent year-over-year. Adjusted EBITDA margin was 12.4 percent for the quarter.

Free cash flow from continuing operations totaled $79.5 million, an improvement of 18.8 percent over the prior year. Core to making the best use of this cash is our balanced, flexible and disciplined approach to capital allocation, which includes investing organically in our business, making strategic acquisitions of profitable, high-growth companies in relevant solution areas, and returning value to our shareholders through our stock buyback program.

Before speaking further on our recent acquisitions and segment performance, I'd like to provide the following three highlights that continue to drive our performance:

- First, ASGN maintains a large and diverse enterprise account portfolio, representing the most significant portion of the revenue base;
- Second, the IT services market remains favorable, and with the support of our large account portfolio, ASGN is successfully executing against these opportunities; and
- Third, favorable bookings in both the Commercial and Government Segments provide us with visibility and position ASGN well for 2023.

Now let's review the segment performance.

Q3 2022 Segment Performance

Commercial Segment – Consulting Offerings Continue to Win Market Share

Our Commercial Segment, which services large enterprises and Fortune 1000 companies, had another solid quarter with growth in both IT staffing and consulting services. Revenues of $900.0 million increased 16.1 percent over Q3 of last year, as well as improved 12.9 percent organically year-over-year on a difficult comparison.

Apex Systems, our largest division, accounted for 84.1% of the segment's revenues for the quarter, with top and retail accounts both achieving double-digit growth rates. Creative digital marketing experienced a lower growth rate compared with Q3 2021 due in part to the high growth rate in the prior-year period.

From an industry perspective, four out of our five Commercial Segment industry verticals achieved double-digit growth for the quarter, while Business & Government Services was up low single-digits versus the prior year.

Within Apex Systems specifically, Financial Services had solid performance in Banking, with even greater year-over-year growth amongst our FinTech and Wealth Management accounts. Growth in the Technology, Media and Telecommunications, or TMT, industry was again led by double-digit growth in technology and telecommunications accounts. Progress in our Commercial & Industrial accounts reflected strength across all sectors as compared to the third quarter of 2021 with the exception of Materials. In particular, we achieved double-digit growth year-over-year in Energy, Utilities, Consumer Discretionary and Consumer Staples. Healthcare industry revenues also grew double digits driven by both Provider and Payer accounts. Finally, growth in our Business & Government Services vertical was led by mid-single digit growth in our Business Services accounts, while Aerospace & Defense accounts were up low-single digits versus the prior year.

Gross margin for the Commercial Segment was 33.1 percent, up 70 basis points from the prior year driven by our growing contribution of high-margin commercial consulting and permanent placement businesses.

Commercial consulting revenues totaled $268.6 million for the third quarter, an increase of 43.2 percent year-over-year and up 29.8 percent organically. Revenues derived from our work in web, mobile and application development, data analysis, cloud architecture and migration engagements, along with work for our new ServiceNow solutions, led our commercial consulting's quarterly performance.

We also had a solid quarter for commercial consulting new bookings, which totaled $254.3 million, up 36.9 percent year-over-year. This translates into a book-to-bill of roughly 0.9 to 1 for the quarter and 1.3 to 1 on a trailing twelve months' basis. Keep in mind, seasonally, the third quarter is typically our lowest book to bill quarter. Our early October performance supports a healthy bookings outlook.

In addition to our bookings, our pipeline of new business opportunities also remains strong. ASGN continues to be favored by our clients in the consulting space due to our intimate relationships, which span decades, our solutions portfolio, which continues to expand, and our solutions delivery model, which enables us to meet our clients' demands with the necessary skilled workforce at economical price points.

As I mentioned, we continue to enhance our solutions capabilities, and at the beginning of July we officially closed our acquisition of GlideFast. The addition of GlideFast puts ASGN on the map as a key ServiceNow player. In a fast-growing technology market, it's important that we offer services that promote our clients' digitization pathways. GlideFast does just that, extending our value proposition through its ServiceNow capabilities, while at the same time being an important source of revenue and margin expansion.

After one quarter with ASGN, GlideFast is performing ahead of our expectations for both its revenue run rate and new business secured. For example, during the quarter, Apex Systems and GlideFast jointly won a contract with a client who is currently in the process of modernizing its asset management system by moving this capability from a legacy system to ServiceNow. Once this capability has been transferred over to ServiceNow, our client can now conduct an initial audit for deployed hardware and software assets.

This particular asset management capability has become important in the past few years as remote teams put stress on their existing asset systems and processes, resulting in a lack of precision on what applications have been deployed and on which devices. ASGN's underlying objective with this particular client was to improve the visibility and security of it asset management capability and to reduce costs. This contract is a great example of work won, and now delivered, as a result of our new ServiceNow solutions capabilities.

Federal Government Segment – Pipeline at All-time High

Let's now turn to the Federal Government Segment, which provides mission-critical solutions to the Department of Defense, the intelligence community and federal civilian agencies. Revenues for the quarter totaled $297.9 million, down slightly year-over-year but up 2.3 percent sequentially. As we discussed in recent calls, this year-over-year decline resulted from our strategic decision not to re-compete a low-margin web services resale program in the third quarter of last year, which was partially offset by the impact of business we acquired in 2021.

Federal Government Segment gross margins were up 120 basis points compared to the prior year, due to favorable business mix. New contract awards for the quarter were approximately $560.0 million, which translates to a book-to-bill of 1.9 to 1 for the quarter and 1.0 to 1 on a trailing 12 months' basis. This significant quarterly award activity demonstrates that the government continues to drive its spending in areas in which ASGN is focused, including that of cybersecurity, cloud, AI/ML and IT modernization. Our strong book to bill for the third quarter supports the Government Segment's continued growth.

Contract backlog improved from $2.9 billion at the end of the second quarter to total $3.1 billion at the end of the third quarter, or a healthy coverage ratio of 2.8 times the segment's trailing 12-month revenues. Beyond our backlog, which extends for multiple years, our pipeline of opportunities is at an all-time high, providing great visibility into 2023. The strength of our pipeline is an indication that our Government Segment is in the right markets - Homeland & Justice, Defense & Intelligence, and Federal Civilian - and providing the right solutions.

During the quarter we won a number of key contract awards, including a new contract with the FBI to provide enterprise IT operations; a re-compete supporting US Transportation Command's software development, help desk and engineering for its Global Air Transportation Execution System or GATES; an important re-compete with the Defense Advanced Research Projects Agency, or DARPA, whom we maintain a longstanding history; and a strategic re-compete to expand an advanced cybersecurity and zero trust solution to the United States Army and other defense agencies.

On the topic of cybersecurity, at the beginning of October we acquired Iron Vine Security, a leading cybersecurity company that designs, implements and executes cybersecurity programs for federal customers. As with all of our acquisitions, Iron Vine represents a high growth business whose contributions will be accretive to both our gross and EBITDA margins. Iron Vine adds key new accounts to our portfolio, such as the Securities and Exchange Commission, the Centers for Medicare and Medicaid Services, the Department of State and the National Institutes of Health. Iron Vine also significantly strengthens ECS' cybersecurity offerings to government accounts, while making us more competitive for future work. Iron Vine is off to a strong start, and we are excited to welcome their talented team to ASGN.

With that, I will turn the call over to Marie Perry, our CFO, to discuss the third quarter financial results and our fourth quarter and full year 2022 guidance.

MARIE L. PERRY
CFO, ASGN:

Q3 2022 Financial Performance and Q4 2022 Financial Estimates

As Ted mentioned earlier, our revenue for Q3 exceeded the mid-point of our guidance estimates and a record for the third quarter. Revenues were $1.2 billion, up 11.6 percent year-over-year on an as-reported basis and up 8.4 percent organically, which adjusts for the $34.2 million contribution from acquired businesses.

Revenues from our Commercial Segment were $900.0 million, up 16.1 percent on a difficult year-over-year comparison. All commercial divisions grew with the highest growth coming from the commercial consulting services, which carry higher gross margins than our IT staffing services.

Revenues for commercial consulting, the largest of the high-margin revenue streams, were $268.6 million, up 43.2 percent year-over-year. Consulting services included approximately $25.1 million in revenues from GlideFast.

Revenues from our Federal Government Segment were $297.9 million, down slightly year-over-year on a difficult comparable but up 2.3 percent sequentially. Revenues for the third quarter of 2021 included $13.4 million of a low-margin web services re-sale program that the Federal Government Segment chose not to renew in Q3 of last year. Revenues for the third quarter of 2022 included $9.1 million from acquired businesses.

Gross margin was 30.0 percent, up 130 basis points over Q3 of last year. Both business segments and all operating divisions reported year-over-year expansion in gross margin driven by improvements in business mix.

Gross margin for the Commercial Segment was 33.1 percent, up 70 basis points year-over-year. The expansion was the result of double-digit growth of our high-margin commercial consulting and permanent placement services.

Gross margin for the Federal Government Segment was 20.5 percent, up 120 basis points year-over-year as a result of changes in business mix. This improvement resulted from a smaller contribution of cost reimbursable contracts, which carry a lower margin than other contract types, the contribution from higher-margin businesses we acquired in the third quarter of last year, and the decision not to renew a low-margin web services resale program in the third quarter of last year.

SG&A expenses were $232.6 million, up 20.7 percent year-over-year. This increase in expense is commensurate with the growth in the business and also reflects increased investments in our headcount to support future growth. SG&A expenses also included $3.3 million in acquisition and integration expenses that we do not include in our guidance estimates. Excluding these acquisition and integration expenses, SG&A was slightly above our guidance estimates primarily as a result of greater-than-expected incentive compensation from higher growth in revenues and gross profit.

Income from continuing operations was $71.1 million, up 7.2 percent year-over-year. Adjusted EBITDA was up 8.9 percent year-over-year. Adjusted EBITDA margin was 12.4 percent for the quarter, a 30 basis point decline year-over-year due to the incremental investments in SG&A previously discussed.

At quarter end, cash and cash equivalents were $211.2 million, and we had $204 million available under our $250 million revolver. Free cash flow from continuing operations totaled $79.5 million, an improvement of 18.8 percent over the prior year.

Our Senior Secured Debt leverage ratio for the quarter was 0.96 to 1.0. We deployed $59.5 million on the repurchase of approximately 624 thousand shares of the Company's common stock during the quarter and year-to-date have repurchased 2.2 million shares for a total of $227.6 million.

Turning to our guidance. Our financial estimates for the fourth quarter are set forth in our earnings release and supplemental materials. These estimates are based on current production trends; assume 60 Billable Days in the fourth quarter, which is four days fewer than Q3 of 2022 and one day fewer than Q4 of 2021; and include an estimated revenue contribution of $48 million from the recent acquisitions of GlideFast and Iron Vine.

For the fourth quarter, we are estimating revenues of $1.123 billion to $1.143 billion, an implied revenue growth rate of 6.6 percent to 8.5 percent on one fewer Billable Day and on a difficult comparable as the fourth quarter of 2021 benefited from high revenue growth. On a sequential basis, the implied revenue growth rate for the fourth quarter of 2022 is expected to be up on a same number of Billable Days.

We are estimating net income of $54.2 million to $57.8 million and Adjusted EBITDA of $128.5 million to $133.5 million. We expect gross margin to remain relatively consistent year-over-year and sequentially. The estimated sequential decline in Adjusted EBITDA and Adjusted EBITDA margin primarily relates to the sequential decline in revenues and gross profit attributable to fewer Billable Days in the quarter.

The midpoint of our fourth quarter guidance range anticipates full-year revenue growth for 2022 of 13.8 percent, net income growth of 15.3 percent and Adjusted EBITDA growth of 15.6 percent compared to 2021.

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

THEODORE S. HANSON
CEO, ASGN:

A Brief Discussion on Our Three-Year Plan

It has been just over a year since we introduced our three-year plan in September 2021. While many things have changed in the past 12 months, demand in our end markets remains favorable, and we are successfully executing against these opportunities. Our ability to succeed quarter after quarter comes down to our resilient operating model. ASGN maintains a large, diverse enterprise account portfolio with strong commercial and government bookings that position us favorably for the future. Our balanced, but flexible, capital deployment strategy enables us to act in the best interests of all of our stakeholders, including successfully completing acquisitions that provide us with new solution capabilities that are in high demand by our customer base.

With that as a background, I'd like to provide some commentary on where we are tracking versus the three-year plan we laid out last September. For reference, you can find the full three-year plan and anticipated growth rates in the Investor & Analyst Day presentation posted on our investor relations website.

Starting with revenue, given the outperformance of the business in the first-half of the year and continued strong top-line growth in the third quarter, we continue to track ahead of our baseline revenue growth expectations. Taking into account acquisitions, revenue growth rates remain within the previously projected range. As a reminder, we plan to deploy $1.25 billion to $2.1 billion in acquisitions from 2021 to 2024 and, based on our acquisition pace to date, we sit squarely within this range. Lastly, in terms of Adjusted EBITDA, we are currently tracking toward the high end of our guidance range on both a dollar and a percentage of revenue basis.

Overall, we are pleased with the growth we have seen across the business and are tracking in-line, if not better, than our initial expectations. While the types of contracts and work requested may be evolving in line with market and client needs, the demand for ASGN's IT services and solutions remains strong. We are confident that this demand, in combination with our strong pipeline of work, will carry us solidly in the fourth quarter and into future years. That said, it's not just the type of services we offer that sets our business apart. It is also the quality of the service we provide our clients project after project that continues to differentiate ASGN from the competition. As we conclude our remarks, I'd like to again sincerely thank our entire team for your hard work and dedication this past quarter. Our success is certainly a reflection of your efforts.

With that, let’s open up the call to questions.