



CONFERENCE CALL

PREPARED REMARKS FROM:

Theodore S. Hanson, Chief Executive Officer, ASGN Incorporated

Marie L. Perry, Chief Financial Officer, ASGN Incorporated

July 26, 2023

SECOND QUARTER FINANCIAL RESULTS CONFERENCE CALL

JULY 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

Vice President Investor Relations:

Good afternoon and thank you for joining us today for ASGN's second 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

Chief Executive Officer:

Thank you Kim, and thank you for joining ASGN's second quarter 2023 earnings call. Before we begin our discussion today, I want to note that we are excited to officially welcome Kim to the ASGN team. As our new Vice President of Investor Relations, we are happy to have her on board to work closely with our investors and analysts. So, let's turn to the quarter.

Business Performing to Expectations

ASGN's performance for the second quarter 2023 was in-line with our expectations, with results above the midpoint or slightly ahead of our guidance ranges. The performance we saw in April continued throughout the quarter, particularly in relation to the more discretionary and cyclical portions of our business, while our commercial consulting and countercyclical federal government revenues continued to grow as anticipated.

Second quarter 2023 revenues of \$1.1 billion were above the midpoint of our guidance range. During the quarter, based on growth of our high-end, higher-value consulting work, consulting revenues reached a total of 53 percent of consolidated revenues, up from 45 percent in the prior-year period.

Adjusted EBITDA margin for the quarter improved sequentially to total 12 percent, above the top-end of our guidance range. As anticipated, we benefited from: (i) typical seasonality in the second quarter, (ii) growth in our high-margin, commercial consulting revenues, (iii) our variable cost structure, and (iv) effective expense management. This margin growth was partially offset by declining revenues in our more discretionary services. Nevertheless, the long-term margin profile of our business remains intact as we continue moving toward a more consultative model.

With that as a background on our consolidated results, I'd like to turn to our operating segments. As we review our quarterly segment performance, three themes will be consistent throughout. First, macro conditions remained difficult for our more cyclical and discretionary services. Second, our commercial and federal consulting businesses continue to grow, and solid bookings were a highlight of the quarter. Third, our business stabilizers, including our strong and diversified U.S.-focused customer base and our variable cost structure, provide support throughout market cycles. So, let's discuss our segment performance.

Q2 2023 Segment Performance

Commercial Segment – Consulting Bookings Remain Strong

I'll begin with our largest segment, Commercial, which predominantly services large enterprises and Fortune 1000 companies. Commercial Segment revenues declined by 4.6 percent for the quarter on a tough year-over-year comparison. As anticipated, revenues for the segment benefited from strength in our consulting business, which was offset by declines in the more discretionary areas of our services, including creative digital marketing and permanent placement, along with certain portions of IT staffing.

For the quarter, commercial consulting revenues increased approximately 26 percent year-over-year and were up 14 percent organically. Bookings of roughly \$357 million translated to a book-to-bill of 1.3 times for the quarter and 1.2 times on a trailing twelve-months basis. Of the consulting work won during the quarter, we saw a nice contribution of new wins and project extensions, with bookings weighted more heavily toward renewals of existing projects.

Our Mexican Delivery Center remains an important part of our consulting growth, providing strong technical capabilities at competitive rates. We've been seeing increased usage of our Mexican Delivery Center, which now has a significantly larger workforce than when we first acquired it through our Intersys acquisition in 2019. Our Mexican Delivery Center supports the execution of our work and helps us respond to our clients' cost reduction goals, while at the same time supports the expansion of our Commercial Segment margins.

Turning to our vertical performance. In times of challenging macro conditions, our industry-diversified commercial client base provides balance and protection on the downside. We saw growth in two out of our five Commercial Segment industry verticals in the second quarter. Consumer & Industrial was our fastest growing vertical, with strong year-over-year growth in the Consumer Staple, Industrial, and Utility sectors. Healthcare also improved and was up low single digits driven by growth in Provider accounts.

In terms of declines, Business & Government Services was down low double digits, with growth in Aerospace & Defense offset by a pullback in Business Services. Financial Services was down mid-single-digits year-over-year, but grew in certain sectors, including Wealth Management and Big Banks. Technology, Media, and Telecommunications, or TMT, accounts were down double-digits due to a decline in both technology and telecommunications.

Even with these decreases in revenues, our strong commercial consulting bookings show that our clients continue to invest in IT projects. AI work, in particular, has become one of our fastest growing service areas across our Commercial Segment. Our generative AI revenues are still very small, but there is an expectation of revenue growth as these technologies mature and more use cases are adopted. In the near term, our supporting solutions in cloud, cybersecurity, and data & analytics will serve as the foundations that ultimately fuel AI usage by our clients, so we are taking to market our multi-layer enterprise roadmaps that will make new AI technologies possible.

For instance, in the second quarter, we won an AI/ML contract to support a Fortune 500 communications company looking to drive product innovation and enhance their customer experience. Our team conducted a baseline analysis of the client's customer data and then built a predictive model to direct its online sales actions. By designing, testing, and training a suite of models on this predictive framework, ASGN was able to improve our client's system responsiveness while maintaining its data security.

We were also engaged by a Fortune 500 media company to provide a roadmap and plan to facilitate the company's journey towards automation. By developing a plan of action to automate repetitive employee tasks, such as copying data and prefilling forms, our client will save time and money by enabling its employees to focus on more strategic tasks.

At the same time we are automating our clients' processes, we are using AI to help with ASGN's project management. In June, our own GlideFast launched AgileGenius, an integration with ServiceNow that automates key aspects of Agile project setup and work allocation. We anticipate AgileGenius will significantly increase our speed to manage our internal IT projects and give us added insight to service clients with this new technology.

Federal Government Segment – Leading Provider of Mission Critical Work

Let's turn now 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 9.8 percent year-over-year, primarily driven by the contribution of our Iron Vine acquisition, and were up 7.7 percent sequentially.

Contract backlog was over \$3.1 billion at the end of the second quarter, or a healthy coverage ratio of 2.6 times the segment's trailing 12-month revenues. New contract awards were approximately \$390 million, which translates to a book-to-bill of 1.2 times for the quarter and 0.9 times on a trailing 12-months' basis.

While protest activity remains high and is causing delays in the start of new projects, we are not experiencing any pullback on active contracts due to the mission critical nature of our federal government work.

In the second quarter, we saw considerable wins and increased demand for our managed cybersecurity, cloud and ServiceNow solutions. For instance, we won a re-compete digital modernization contract to provide advanced geospatial analytics to the United States Postal Service. As part of this contract, ECS will be introducing AI tools that improve operational efficiency and effectiveness, while reducing costs. We also secured two enterprise IT contracts, one with the U.S. Navy to support its public safety network and another project with the FBI to provide data center services.

Our Federal Government Segment was awarded several new task orders under our Department of Homeland Security ADAPTS vehicle to expand digital modernization, architecture & cloud, and Chief Technology Officer services. Further, we won an AI/ML contract for a classified customer to support this customer's open-source intelligence goals.

Speaking specifically about AI, ASGN has been an active player in providing artificial intelligence capabilities to the Federal Government for many years. From 2019 to 2022, ECS was the number-one contractor for AI spend according to the Federal Procurement Data System. We've built in-house procurement, development, and testing capabilities to bring the latest commercial AI technologies and solutions online for sensitive government missions. These efforts will provide us with the key qualifications needed to secure new AI work in the future. With that, I'll turn the call over to Marie to discuss the second quarter results and our third quarter 2023 guidance.

MARIE L. PERRY
Chief Financial Officer:

Q2 2023 Financial Performance and Q3 2023 Financial Estimates

As Ted noted, our results for the quarter were in line with our expectations. Second quarter revenues of \$1.1 billion were down 1.0 percent year-over-year on the heels of another difficult comparison of more than 17 percent growth in Q2 2022. That withstanding, with April performance serving as a basis for our Q2 estimates, revenues were toward the high end of our guidance range.

Revenues from our Commercial Segment were \$811.3 million, down 4.6 percent year-over-year. Revenues from commercial consulting, the largest of our high-margin revenue streams, totaled \$281.1 million, up 26.5 percent year-over-year. Excluding the \$27.7 million contribution from our GlideFast acquisition, consulting revenues grew 14.1 percent year-over-year.

As expected, offsetting this growth in consulting, was a year-over-year decline in assignment revenues, predominantly our more discretionary permanent placement and creative digital marketing services, as well as a portion of our IT staffing. With that said, assignment revenues declined 15.6 percent as compared to the prior-year period.

Revenues from our Federal Government Segment were \$319.6 million, up 9.8 percent year-over-year, including a \$25.2 million contribution from our Iron Vine acquisition.

Turning to margins. On a consolidated basis, gross margin was 28.9 percent, down 120 basis points over the second quarter of last year. The year-over-year compression in gross margin was mainly related to business mix, including a slightly higher mix of revenues from our Federal Government Segment, which carry 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 32.2 percent, down 90 basis points year-over-year primarily due to a smaller contribution from our more discretionary and cyclical permanent placement and creative digital marketing revenues as noted. Gross margin for the Federal Government Segment was 20.5 percent, also down 90 basis points year-over-year. Last year benefited from certain higher margin firm fixed priced programs.

SG&A expenses for the second quarter were \$210.5 million, down 4.5 percent year-over-year due effective expense management and lower incentive compensation expense. SG&A expenses also included \$1.1 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 \$60.1 million, Adjusted EBITDA was \$135.2 million and Adjusted EBITDA margin was 12.0 percent. Adjusted EBITDA margin surpassed the top end of our guidance range for the quarter and improved 110 basis points sequentially due to typical second quarter seasonality, effective expense management, lower incentive compensation, and continued growth in our commercial consulting business.

At quarter end, cash and cash equivalents were \$93.8 million, and we had full availability under our \$460.0 million senior secured revolver.

Free cash flow for the quarter totaled \$101.3 million, up 27.3 percent from the second quarter of 2022. 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, we deployed \$57.6 million in cash on the repurchase of 836,257 shares on an average price of \$68.95 per share.

Turning to our guidance. Our financial estimates for the third quarter of 2023 are set forth in our earnings release and supplemental materials. These estimates assume 62.5 Billable Days in the third quarter, which is 1.5 fewer days than the prior-year period and 0.75 days less than Q2 of 2023. Estimates also include \$25.2 million in anticipated revenues from Iron Vine.

We expect macro conditions to again be challenging in Q3 for the Commercial Segment, which includes both assignment and consulting services, partially offset by growth in the Federal Government Segment. In addition to the difficult year-over-year comparison, in commercial consulting we do face changes in the pace of work stretching project durations.

With this as background, for the third quarter we are estimating revenues of \$1.10 billion to \$1.12 billion. We are estimating net income of \$56.4 million to \$60.4 million and Adjusted EBITDA of \$130.0 million to \$135.5 million.

We are expecting gross margins will decline year-over-year due to business mix similar to more recent trends, including a greater mix of federal government work and continued softness in our assignment work. It's important to keep in mind, that while a leading indicator on the downside, permanent placement and creative digital marketing have historically seen more sustained rallies once the economy improves. In the meantime, while the economy remains challenged, we will continue to leverage our variable cost structure and proactively manage our expenses to support our Adjusted EBITDA margin. With these efforts, we believe we can sustain the Adjusted EBITDA margin achieved in Q2.

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

THEODORE S. HANSON
Chief Executive Officer:

A Stable Business Model Well Positioned for Success

As we conclude, I want to bring us full circle to where our discussion began. Macro conditions remain challenging, but our business is performing to expectations. With our strategic decision to increasingly focus our efforts on high-end, higher-value IT consulting services and solutions, we are shaping and evolving our operations for success. Our business stabilizers support our resilient operating model, and those stabilizers, combined with our ability to adapt to and evolve with our clients' needs, will drive our performance going forward.

As we weather the current environment, ASGN remains committed to achieving further growth and development. Our ongoing progress will not only be demonstrated by our solid financial performance; it will also be gauged by the impact we have on the communities in which we live and work. With that in mind, I am pleased to note that in June we published our fourth annual ESG Report. As a people business, environmental, social and governance initiatives are part of ASGN's core DNA.

We have made great headway since embarking on our ESG reporting journey. I want to thank our entire team for your continued commitment toward creating a more sustainable future for all of our stakeholders. I also want to thank all of our employees for your efforts this past quarter. You continued to put our clients' needs first, and this is evident in our results.

Thank you again for joining our second quarter call. We will now open the call to your questions. Operator?