



# CONFERENCE CALL

PREPARED REMARKS FROM:

Theodore S. Hanson, Chief Executive Officer, ASGN Incorporated

Marie L. Perry, Chief Financial Officer, ASGN Incorporated

**October 25, 2023**

## THIRD QUARTER FINANCIAL RESULTS CONFERENCE CALL

### OCTOBER 25, 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 third 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](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 third quarter 2023 earnings call.

### **A Resilient Business Model Positioned for Growth**

ASGN's performance for the third quarter 2023 was in-line with our expectations, with results slightly ahead of or within our guidance ranges.

Third quarter 2023 revenues of \$1.12 billion were above the mid-point of our guidance, with IT consulting revenues reaching approximately 55 percent of the total, ahead of our 2024 goal.

Adjusted EBITDA margin was 12.3 percent for the third quarter, above the top-end of our guidance range. We continue to see opportunities for margin expansion as our consulting revenues grow.

With that as a background on our consolidated results, I'd like to turn to our industry performance. As we review our performance, three key themes will be consistent throughout the discussion. First, while the market for IT spend remains difficult, these headwinds will reverse, and ASGN's business is better positioned than it's ever been to capture in-demand IT opportunities. Second, the strength of our business lies in our large domestic enterprise account base. Our diversified client base across six critical industry verticals provides stability throughout market cycles. Third, our business continues to evolve toward IT consulting, with more than half of our consolidated revenues now in higher-end, higher-value projects and solutions capabilities. This growth in consulting revenues, along with the variable nature of our cost structure, supports our margins. I'll speak more about each of these topics as we review our quarterly performance, so let's begin by discussing the five industry verticals that comprise our Commercial Segment.

### **Q3 2023 Segment Performance**

#### **Commercial Segment – Balanced Industry Portfolio**

Our Commercial Segment predominantly services large enterprise and Fortune 1000 companies. Commercial Segment revenues for the quarter declined by low teens on a difficult year-over-year comparison. Revenues for the segment benefited from growth in our consulting business, offset by double-digit declines in the more discretionary areas of our assignment business.

For the quarter, commercial consulting revenues increased 2.1 percent year-over-year. Commercial consulting bookings of \$291.0 million translated to a book-to-bill of 1.1 times for the quarter and 1.2 times on a trailing twelve-months basis. Of the consulting work won during the quarter, bookings were again weighted toward renewals on existing projects, with a large portion of bookings coming in at the end of the third quarter, an indication that our clients remain cautious in their spend. Sales cycles are slow, and project durations continue to be elongated, but our retention rates on existing deals remain strong as our clients continue to recognize the high value of and need for ASGN's services. We are seeing anything with an immediate return on investment, specifically projects aimed at cost containment and those generating operational efficiencies, getting the green light from clients. I'll speak more on the work won during the quarter shortly.

Turning to our vertical performance. Our Consumer & Industrial and Healthcare verticals saw low single-digit revenue declines year-over-year. Within Consumer & Industrial, Consumer Staples and Utilities were bright spots, each experiencing low single-digit growth as compared to the third quarter of 2022. In the Healthcare vertical, Provider Accounts maintained their strength and revenues were up double-digits year-over-year.

Technology, Media, and Telecommunications, or TMT, Business & Government Services, and Financial Services, our three remaining commercial industry verticals, all saw continued revenue declines year-over-year, though each of these verticals displayed some resiliency in certain areas on a sequential basis. Within TMT, for example, Media & Entertainment account revenues remained relatively consistent with the second quarter of 2023, with the rate of decline slowing. Within our Financials vertical, Big Bank revenues were relatively flat sequentially with small sequential revenue growth in Diversified Financials.

Even in these more challenging macroeconomic conditions, as previously noted, our commercial bookings remain solid. We continue to make progress on the AI-front across the Commercial Segment, with generative AI accounting for many of the new opportunities in our pipeline, followed closely by work in machine learning. The vast majority of the generative AI projects for clients are exploratory at this time. We expect larger AI programs to follow once use cases that demonstrate value creation have been identified for our clients.

At the same time this AI exploration work is taking place, we are seeing strong demand for data engineering and data governance in support of AI use cases. These infrastructure needs are being driven by the desire to ensure that data is complete, accurate, and timely for training, testing, and deploying AI models in the future.

One example of work is a consulting project we won during the third quarter with a leading North American pet supply company. Our team was brought on to build out an end-to-end freight management system for our client, including the full cloud data platform for managing analytics and future AI and automation capabilities. We are responsible for ensuring the architecture, configuration, reporting, and analytics are properly set up in the new freight management tool. At the same time, we must ensure that the data is extracted correctly from the old tool and ingested in the new tool. We are using technology solutions such as Snowflake, Data Bricks and Google Cloud as part of this end-to-end architecture to ensure the best outcome for our client.

We also continue to excel in projects involving engineering, robotics, and machine learning capabilities. In another consulting project won during the third quarter, we were hired to provide services to a leader in e-Grocery technology. Under this contract, we are helping to drive the deployment of our client's robotic grocery fulfillment systems, which are used to stock the warehouses of a major retailer nationwide. We are providing end-to-end provisioning, installation, quality assessment, and support for each warehouse deploying the new e-Grocery technology.

### **Federal Government Segment – Countercyclical Strength**

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 quarter were up 12.3 percent year-over-year on an as reported basis and up 4.0 percent organically.

Contract backlog was roughly \$3.3 billion at the end of the third quarter, or a healthy coverage ratio of 2.6 times the segment's trailing 12-month revenues. New awards were approximately \$501.2 million, which translates to a book-to-bill of 1.5 times for the quarter and 0.9 times on a trailing 12-months basis.

As we continued to secure work during the third quarter, we recognized the potential for some disruption in the procurement process should a government shutdown occur following the end of Q3. Our government team proactively engaged in discussions with clients for several weeks leading up to October 1st and reconfirmed that the vast majority of our work is mission critical. We believe that ten percent or less of our federal government work could be impacted in the case of an extended government shutdown. We are keeping track of budgetary developments. In the meantime, we remain heads down on providing leading IT solutions to our government client base.

Speaking of supporting our clients, in the third quarter, we won a combination of new and re-compete contracts. Amongst the new work secured, we won two new cybersecurity contracts with the U.S. House of Representatives and the Census Bureau. In addition, we secured a five-year data and AI contract to support the National Geospatial Intelligence Agency, the Chief Digital Artificial Intelligence Office (CDAO), and the Army Research Laboratory. We also won a smaller contract from the CDAO to help establish a global AI innovation lab that will support academic research in artificial intelligence worldwide. Similar to the Commercial Segment, much of our work in generative AI in the government space remains exploratory at present, but with excellent qualifications in traditional forms of artificial intelligence, our federal and civilian customers continue to look to us to identify use cases that will increase their operational efficiency. In fact, on several DoD AI Research and Development Programs, we are integrating generative AI and large language models into current solutions.

With regards to project extensions, we won work with the U.S. Postal Service supporting several key areas, including advanced data management and cybersecurity, and continued to support the Department of Veterans Affairs while adding new work in strategic planning, cloud advisory services, and AI technology implementation. The breadth of work just described is evidence of the countercyclical balance the government industry vertical provides to our overall account portfolio. With that, I'll turn the call over to Marie to discuss the third quarter results and our fourth quarter 2023 guidance.

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

## Q3 2023 Financial Performance and Q4 2023 Financial Estimates

As Ted noted, our results for the quarter were in line with or exceeded our expectations. The third quarter revenues of \$1.12 billion were down 6.8 percent year-over-year.

Revenues from the Commercial Segment were \$782.4 million, down 13.1 percent compared to the prior-year quarter. Revenues from commercial consulting, the largest of our high-margin revenue streams, totaled \$274.2 million, up 2.1 percent year-over-year on a tough comparison of 43.2 percent growth in the third quarter of 2022.

Growth in commercial consulting revenues was offset by a 19.5 percent year-over-year decline in assignment revenues, reflecting the continued softness in the more discretionary and cyclical parts of our business. On a same Billable Day basis adjusting for 1.5 fewer Billable Days in Q3 of 2023 compared to the prior-year quarter, assignment revenues declined 17.6 percent.

Revenues from our Federal Government Segment were \$334.4 million, up 12.3 percent year-over-year, including a \$24.6 million contribution from Iron Vine. The growth in our Federal Government Segment, our sixth vertical, speaks directly to the benefits of maintaining a diverse client base across industries.

Turning to margins. On a consolidated basis, gross margin was 28.9 percent, down 110 basis points over the third quarter of last year and flat sequentially. The year-over-year compression in gross margin was mainly related to business mix, including a lower mix of certain high-margin revenues within our Commercial Segment and a higher mix of revenues from our Federal Government Segment, which carry a lower gross margin than Commercial Segment revenues.

Gross margin for the Commercial Segment was 32.5 percent, down 60 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, which was partially offset by a higher mix of high-margin IT consulting revenues with a year-over-year expansion in gross margin. Gross margin for the Federal Government Segment was 20.4 percent, down 10 basis points year-over-year.

SG&A expenses for the third quarter were \$206.0 million, or 18.4 percent of revenues, as compared to \$232.6 million, or 19.4 percent of revenues, in the prior-year period. SG&A expenses included \$1.1 million in acquisition, integration, and strategic planning expenses and a \$2.7 million tentative legal settlement, both of which were not included in our guidance estimates.

As expected, interest expense increased year-over-year related to rising interest rates and our recent refinancing. At the end of August, we completed a successful transaction that upsized and extended the maturities of our Revolving Credit Facility and Term Loan B. Our Revolving Credit Facility is now \$500 million, with a five-year maturity extending to 2028. Our Term Loan B is also \$500 million and extends seven years, maturing in 2030. Post transaction our leverage remains low at 2.0 times Adjusted EBITDA. Ted will speak further about this transaction shortly.

Income from continuing operations was \$59.4 million, Adjusted EBITDA was \$137.5 million, and Adjusted EBITDA margin was 12.3 percent.

At quarter end, cash and cash equivalents were \$145.6 million, and we had full availability under our new \$500.0 million senior secured revolver.

Free cash flow for the quarter was \$137.7 million, an increase of 73.2 percent year-over-year. We deployed \$91.3 million in cash on the repurchase of 1.1 million shares during the third quarter at an average price of \$79.63 per share. We have roughly \$349.1 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 our guidance. Our financial estimates for the fourth quarter of 2023 are set forth in our earnings release and supplemental materials. These estimates are based on current market conditions and do not take into account any possible revenue declines associated with a potential government shutdown in November. Our estimates assume 60 Billable Days in the fourth quarter, which is the same as the year-ago period, and 2.5 fewer Billable Days than Q3 of 2023. Guidance also takes into account seasonality, with the fourth quarter traditionally the second lowest quarter after the first quarter.

We expect macro conditions to remain challenging in the fourth quarter. In our Commercial Segment, we anticipate revenues to remain soft across both assignment and consulting. These declines are expected to be partially offset by growth in our Federal Government Segment.

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 more cyclical and discretionary commercial businesses. This should be partially offset by improvement in our year-over-year cash SG&A expense margin.

With this as background, for the fourth quarter we are estimating revenues of \$1.04 billion to \$1.06 billion. We are estimating net income of \$46.2 million to \$49.1 million, Adjusted EBITDA of \$115.5 million to \$119.5 million, and Adjusted EBITDA margin of 11.1 percent to 11.3 percent.

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

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

**Strengthening Our Balance Sheet for the Future**

ASGN's business is very well positioned when IT market demand and the overall economy improves. Consistent with our peer set and our clients, we remain cautious about the near-term market demand given the uncertain macroeconomic conditions. Nevertheless, with great qualifications across sought-after IT solutions and skillsets, ASGN is ready to leverage growth in IT spend in the future.

As we proactively position our Company for the future, as Marie noted, in the third quarter we successfully completed a transaction to upsize and extend the maturities of our Revolving Credit Facility and Term Loan B. This transaction increased our financial flexibility and provided us with significant dry powder for acquisitions as the M&A market strengthens. We continue to believe M&A is the best use of and highest return on our capital.

Both the Revolver and Term Loan B were oversubscribed, which we can attribute to the strength of our underlying business. The success of this refinancing was also due to the efforts of our treasury team led by Jim Brill. Jim has been an integral part of the ASGN family for the past 16 years, but we knew the day would come when Jim would retire.

Jim, it has been a pleasure to work alongside you all these years, and on behalf of our entire company, I want to thank you for your exceptional leadership and dedication to ASGN. You will be missed, and we wish you the very best in your well-deserved retirement.

Transitioning into Jim's role as Treasurer, we welcome Chris Donnini, who has served in a VP of Finance & Treasury role at ASGN since July. Chris has been shadowing Jim since day one. With an extensive background in finance and treasury for publicly traded companies, Chris brings a wealth of experience to ASGN. We are excited to have Chris on board and hope that many of you have the opportunity to meet him in the near future.

That concludes our prepared remarks. I'd like to thank our entire ASGN team for your continued efforts this past quarter. Our ability to remain in the fast currents of where IT spend is today and in the future is the result of your dedication and unwavering commitment to our clients.

Thank you again for joining our third quarter call. Operator, please open the call to questions.