CONFERENCE CALL

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

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FIRST QUARTER 2024 FINANCIAL RESULTS CONFERENCE CALL
APRIL 24, 2024
PREPARED REMARKS

KIMBERLY ESTERKIN
Vice President Investor Relations:

Good afternoon. Thank you for joining us today for ASGN's first quarter 2024 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 first quarter 2024 earnings call.

Continuing to Take the Right Steps for Success

ASGN achieved solid results for the first quarter. Revenues of $1.05 billion and Adjusted EBITDA of $108.3 million were both near the top-end of our guidance ranges.

When we spoke last quarter, we expected our Commercial Segment would see revenue trends in Q1 comparable to that of Q4, while our Federal Government Segment would continue to achieve year-over-year top-line growth. As evident from our segment results, which I'll review in detail shortly, market conditions were as we predicted. Our commercial clients continued to be cautious and acutely focused on where and when they will spend. Importantly, despite IT budgets being slow to be executed, our clients continued to leverage our high-end consulting capabilities, so our commercial consulting revenues increased both year-over-year and sequentially.

On the government side of our business, revenues improved year-over-year and visibility began to build toward the end of the quarter with the passage of the appropriations bill in late March. While a release in federal spend will not happen automatically, the approval of the budget is a step in the right direction.

Speaking of moving in the right direction, we continue to proactively shape and evolve our operations to position our business for continued growth. Our industry-diverse, large account portfolio not only serves us well in good times, but also in more difficult macro conditions. Our federal government services provide countercyclical support to balance out our five diverse commercial industry verticals.

We are also focusing on the right type of services, that of higher-value, higher-margin IT consulting where projects and visibility are longer and client relationships are stickier, providing our business with enhanced stability across market cycles. A highlight of our quarterly results, IT consulting revenues comprised approximately 57 percent of Q1 2024 revenues, as compared to roughly 50 percent in the prior-year period. In addition, Adjusted EBITDA benefits from higher commercial consulting margins. ASGN has made great strides in growing our IT consulting business, and with a vast addressable market, there are many more opportunities for further growth.

This growth will be driven, in part, by continuing to develop and foster the right customer relationships with the Fortune 1000 and government clients. Our longstanding, trusted client relationships are what drove our progression into IT consulting, and these clients will continue to pull us up the IT services pyramid. Importantly, as we await increased spending, we are making the right investments in our people, training and upskilling our teams in the latest technological developments, including key areas such as cybersecurity, data analytics, cloud, and AI, all with our customers' needs in mind. Technology is shifting at a rapid pace, and it is essential that we stay ahead of this change to remain competitive.

We are also executing on the right strategic decisions when it comes to our capital allocation. While Marie will discuss our recent term loan B refinancing shortly, I am pleased to announce that just this week our Board of Directors approved a new, two-year $750 million share repurchase authorization. This authorization is the largest in ASGN's history, reflecting our commitment to deliver value to our stockholders by using our solid free cash flow to buy back shares, while at the same time ensuring that we remain ready to execute on the right strategic acquisitions.

With that as a background, let's turn to our segment performance, beginning with our largest segment by revenue, Commercial.

Q1 2024 Segment Performance

Commercial Segment – Further Enhancing Our Consulting Platform

Our Commercial Segment services large mid-market accounts and Fortune 1000 companies. Commercial Segment revenues for the quarter declined by low double digits year-over-year. Revenues for the segment benefited from the growth in our consulting business, offset by continued softness in the more cyclical areas of our assignment business.

Commercial consulting revenues increased 2.0 percent for the quarter compared to the year-ago period and were also up 3.2 percent sequentially. Commercial consulting bookings of approximately $323.2 million translated to a book-to-bill of 1.2 times on a trailing twelve-month basis. Bookings were again weighted towards renewals in the first quarter. That said, even as IT budgets continue to be prioritized and managed, our customers are actively spending in the areas of cybersecurity, cloud, and data analytics. Investments in cloud and data infrastructure are often considered a precursor to investments in the AI space, and we are actively working with our clients to solidify their AI foundations.

Turning to our vertical performance. All five commercial industry verticals declined year-over-year. That said, we saw year-over-year growth in three sub-verticals, including Utilities, Healthcare Providers, and Telecom accounts. On a sequential basis, two verticals, TMT and Business & Government Services, appear to be stabilizing on a same billable-day adjusted basis. We also saw sequential growth in several sub-verticals on a same billable-day adjusted basis, including Regional Banks, Telecom, Media, Healthcare Payers, Energy, Consumer Staples, and Aerospace and Defense accounts. While it is encouraging to see these sequential improvements, we have not yet seen an inflection point in IT spending.

Nevertheless, our commercial consulting bookings remained solid, and during the first quarter our teams won work across multiple service areas. Cybersecurity continues to be an area of growth for our Commercial Segment, and as discussed last quarter, collaboration with our Federal Government Segment on cybersecurity services has only added to this strength. During the quarter, we won a contract delivering technical remediation and advisory services to a Fortune 500 insurance client. Our comprehensive Governance, Risk, and Compliance solutions helped our client mature their security operations and become an improved governance- and oversight-focused organization.

Beyond cybersecurity, our product and application services are resonating with clients that are looking for opportunities to scale and become more efficient. One way we've delivered efficiency to clients is via our world-class nearshore delivery center in Mexico. In the first quarter, a global leader in medical transportation approached our commercial team following difficulties they were having with their current offshore provider. Our Mexico Delivery Center stepped in to offer a team of experts, from developers to testers, who have extensive experience working together in a much more convenient time zone for our client.

Our nearshore consultants are not only impressing our client base, but they are also enjoying the projects they are performing and their work environment. In fact, I am very pleased to report that earlier this month, our Commercial Segment brand Apex Systems was recognized as one of the Best Places to Work for Women in Mexico for the second year in a row. Providing an inclusive, multicultural environment is core to ASGN's belief systems and corporate policies, and this award is a testament to our continued commitment to career development for all.

Along the lines of career development, our growing Data and AI practice is being supported by internal investments in talent, technology partnerships, intellectual property, and training. We are proactively training our workforce in the U.S. and Mexico in the latest Gen AI technologies. For one of the world's largest telecommunications providers, for example, our AI skillsets enabled us to win a 12-month consulting engagement supporting a Gen AI application development program. We are providing our client with scalable access to talent, technical leadership, and large language model trainings. In another instance, for an oil and gas company that ranks amongst the top 10 of the Fortune 500, we are leading an implementation of the Databricks Unity Catalog, a cloud-based platform that offers a unified governance layer for enterprise data and AI. Our client has over 100 Databricks workspaces, or deployments in the cloud, and our project team is tasked with helping our client develop a governance structure related around the auditability, security posture, and cost allocation of these workspaces. Our team of consultants is currently collaborating with Databricks and our client's internal IT team to build automation to onboard these Databricks workspaces with ease and repeatability. Our pipeline of data and AI work continues to grow, and we look forward to supporting our clients as they focus on data preparation, developing use cases, and ultimately implementing their own AI platforms.

Federal Government Segment – Strategically Aligned with Federal Budget

Now let's turn 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 first quarter were up solidly year-over-year.

Contract backlog was $2.9 billion at the end of the first quarter, or a coverage ratio of 2.2 times the segment's trailing twelve-month revenues. New contract awards were approximately $197.3 million, translating to a book-to-bill of 0.9 times on a trailing twelve-month basis. With the recent passage of the Federal Budget, awards previously deferred by the Continuing Resolution are beginning to work their way through the procurement system. We have been in pursuit of new awards throughout the budgeting process and now hope that with the recent appropriations bill, our proposals submitted and awaiting award will begin to convert at a higher velocity.

The recently passed Federal Budget allocates funds to several key service areas in which our government teams have an established leadership presence, one of which is the area of cybersecurity. In the first quarter, our Federal Government Segment won a $120 million, five-year, re-compete cybersecurity contract with the Department of Health and Human Services. Under this contract, our team will provide comprehensive, advanced managed cybersecurity services, threat intelligence analytics, and data forensics to the Centers for Medicare & Medicaid Services and their Healthcare Marketplace.

The newly approved Federal Budget also allocates increased funds towards responsible AI applications. In addition to our growing AI presence on the commercial side of our business, our Federal Government Segment remains recognized as one of the U.S. Government's leading AI contractors in both mission and enterprise IT. During the first quarter, our National Security and Intelligence Business received additional funding to support the DoD in developing, deploying, and integrating its Next-Gen AI capabilities. We also won a new contract to support AI-enabled Open-Source Intelligence Solutions for which our team will provide extensive training and program support.

We continue to win contracts focused on digital transformation and emerging technology services. Leveraging more than two decades of experience as a leading Microsoft Solutions Partner in Azure, during the first quarter, we expanded our contract ceiling with the IRS to provide digital transformation services, IT operations, application management, and engineering services. We also broadened our work with the Army's Program Executive Office for Simulation, Training, and Instrumentation. For this particular Army office, we provide full project lifecycle services ranging from project management, modeling, and simulation to emerging technology integration and logistics support.

With that, I will turn the call over to Marie to discuss the first quarter results and our second quarter 2024 guidance.

MARIE L. PERRY
Chief Financial Officer:

Q1 2024 Financial Performance and Q2 2024 Financial Estimates

First quarter revenues of $1.05 billion were near the top end of our guidance range and reflect growth in our commercial consulting and federal government business.

Revenues from the Commercial Segment were $731.5 million, down 12.1 percent compared to the prior year. Revenues from commercial consulting, the largest of our high-margin revenue streams, totaled $277.0 million, up 2.0 percent year-over-year and up 3.2 percent sequentially.

Revenues from our Federal Government Segment were $317.5 million, up 7.0 percent year-over-year.

Turning to margins. Gross margin for the first quarter of 2024 was 28.2 percent, down 70 basis points from the first quarter of last year due to a higher mix of revenues from our Federal Government Segment which have a lower gross margin than Commercial Segment revenues.

Gross margin for the Commercial Segment was 32.0 percent, up 50 basis points year-over-year due to growth in our commercial consulting revenues. Gross margin for the Federal Government Segment was 19.7 percent, down 190 basis points year-over-year primarily due to contract mix, as well as a higher volume of firm-fixed-price projects that were ramping-up in the prior year, creating a difficult comp.

SG&A expense for the quarter were $210.2 million, or 20.0 percent of revenues, compared to $224.1 million, or 19.9 percent of revenues, in the prior year. SG&A expense also included $1.2 million in acquisition, integration, and strategic planning expenses that were not included in our guidance estimates.

As expected, interest expense increased year-over-year related to rising interest rates and our refinancing this past August. Going forward, however, we will see a reduction in our interest expense. In mid-March, we successfully refinanced our term loan B. This refinancing closed on March 13th and was the first high yield repricing of the year to price at SOFR plus 175 basis points, a 50-basis point reduction from our prior-rate spread. As a result of this repricing, for full year 2024, we anticipate cash interest savings of $1.1 million, net of transaction fees, followed by cash interest savings of approximately $2.5 million per year, thereafter.

For the quarter, net income was $38.1 million, Adjusted EBITDA was $108.3 million, and Adjusted EBITDA margin was 10.3 percent. Our Adjusted EBITDA margin reflects the payroll tax reset which occurs at the beginning of every calendar year and has an approximate 100 basis point downward impact as we move from the fourth to the first quarter.

At quarter end, cash and cash equivalents were $158.4 million, and we had full availability under our $500.0 million senior secured revolver, and our net leverage ratio was 1.77 times.

Turning to our cash flow statement. Free cash flow for the quarter was $62.5 million. We deployed $79.7 million in cash to repurchase approximately 800,000 shares at an average price of $96.63 per share.

Also, as Ted noted earlier, this week our Board of Directors approved a new two-year $750 million share repurchase plan, replacing and upsizing the prior $500 million authorization. We believe this increase in the size of our share repurchase program indicates our confidence in our continued ability to generate free cash flow.

With solid free cash flow generation and full availability under our revolver, we have ample dry powder to make strategic acquisitions when the M&A market improves. In the meantime, we expect to continue to repurchase ASGN shares given their attractive valuation.

Turning to guidance. Our financial estimates for the second quarter of 2024 are set forth in our earnings release and supplemental materials. These estimates are based on current market conditions. Our estimates assume 63.5 Billable Days in the second quarter, which is 0.25 Billable Days more than the year-ago period and 0.75 Billable Days more than Q1 of 2024.

We expect market conditions and demand for our IT services in the second quarter to be similar to that of the first. In the Commercial Segment, we anticipate revenues will remain steady to Q1, while in the Federal Government Segment, revenues will be relatively consistent year-over-year.

With this background, we are estimating revenues of $1.035 billion to $1.055 billion for the second quarter. We are estimating net income of $44.7 million to $48.3 million, and Adjusted EBITDA of $114.0 million to $119.0 million, and Adjusted EBITDA margin of 11.0 percent to 11.3 percent.

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

THEODORE S. HANSON
Chief Executive Officer:

A Resilient, Differentiated Go-To-Market Strategy

As is clear from today's discussion, our clients remain cautious with their IT spend as they look for more certainty in their business performance against a challenging macro backdrop. Nevertheless, we continue to proactively shape our operating model to be resilient in the current market as well as be ready for when IT spend accelerates. To ensure our service offerings and capabilities match the evolving needs of our clients and our industries, it's essential that we maintain a solid foundation of client support. With that in mind, I am grateful to our entire team for your hard work and commitment over the past quarter. Your efforts are deeply appreciated, and I am honored to be part of such a talented and client-focused team.

Sourcing exceptional IT talent on a just-in-time basis is one of the many ways in which ASGN differentiates itself in the IT marketplace. Our differentiated recruiting model that relies on contingent labor onshore and nearshore, provides a scalable, flexible solution that sets ASGN apart from traditional consulting companies that rely on a permanent bench. Leveraging a contingent labor force enables us to tailor our offerings and provide our clients across six diverse industry verticals with the exact skillsets, pricing, and industry-based talent they need, whether for a short-term data review project or a longer-term platform integration. A pivotal aspect of our model is that our contingent labor force flexes with revenue, acting as a stabilizer for gross margin, if and when, revenues soften. This, along with our variable SG&A cost structure, allows us to deliver solid margins and cash flow.

As is evident from our go-to-market strategy I just described, ASGN has the right building blocks in place. That said, as Marie discussed, we do not anticipate the seasonal uptick we have historically seen in our revenues in the second quarter, due in large part to the lack of ramp in IT spend and budget releases that we typically see during the first quarter. Nevertheless, our IT consulting pipeline is growing, bookings remain solid, and the projects we are winning are longer in duration and more consultative. We have weathered many economic cycles throughout our Company's history, and I am confident that when IT spend begins to accelerate, our teams will be at the forefront to lead our clients to their next phases of technological innovation, productivity, and growth.

Thank you again for joining our first quarter 2024 call. Operator, please open the call to questions.