



CONFERENCE CALL

PREPARED REMARKS FROM:

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SECOND QUARTER 2024 FINANCIAL RESULTS CONFERENCE CALL

JULY 24, 2024

PREPARED REMARKS

DISCLAIMER

Certain statements made in these prepared remarks are “forward-looking statements” within the meaning of Section 27A of the Securities Exchange Act of 1933, as amended, and 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 these prepared remarks 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 successfully adapt, integrate, and leverage developing technologies, including generative AI, 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, 2023, as filed with the SEC on February 23, 2024. We specifically disclaim any intention or duty to update any forward-looking statements contained in these prepared remarks.

KIMBERLY ESTERKIN

Vice President Investor Relations:

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

Continued Progression Up the IT Services Pyramid

ASGN's results for the second quarter confirmed our expectations that macro conditions in Q2 would be consistent with Q1. Revenues were \$1.035 billion, while Adjusted EBITDA margin of 11.3 percent was at the top of our expectations.

Consistent with the first quarter, in Q2 our clients continued to acutely focus on where and when to spend against their IT budgets. Their long-term IT roadmaps and priorities have not changed; however, concerns about protecting their bottom line continue to drive cautious execution. This behavior is not unique to ASGN's customer base. On a recent call hosted by the Global ISG Index for the second quarter of 2024, their team of experts concluded that new bookings and hiring remain muted, and headwinds, such as high interest rates, inflation, geopolitical unrest, and the impending U.S. Presidential election, continue to hinder increased IT spend.

IT consulting revenues totaled 57.1 percent of consolidated revenues for the second quarter of 2024, up from 53.1 percent in the prior-year quarter. The evolution of our revenues is not only reflected in our financial statements, but it has also been acknowledged by equity market indices. In May, in recognition of the pivot in strategy, the Joint S&P and MSCI Committee responsible for the GICS Code classification, officially switched ASGN's GICS Code from the Industrials sector, under "Human Resources & Employment Services," to the Information Technology sector, under "IT Consulting & Other Services." With each accomplishment, whether that be increasing our IT consulting revenues and ultimately overall Company margins, or receiving a new GICS Code, we are making measured, strategic progress toward our goal of moving up the IT services pyramid into higher-end, higher-value IT consulting solutions.

Our progress towards this goal will be driven by continuing to nurture our longstanding, trusted client relationships which, like our variable cost structure, are a cornerstone of our business model. Our large account portfolio, across six diverse industry verticals, offers us first-hand insight into our clients' investments and long-term IT roadmaps. As we position ourselves for the future, we remain committed to fostering these relationships and supporting our clients' most critical IT needs. I'll provide some more details about how we are staying ahead of our clients' IT needs, and in particular those related to AI, as we discuss our segment performance. So, let's begin with our largest segment by revenue, Commercial.

Q2 2024 Segment Performance

Commercial Segment – Consistent Revenue Performance; Differentiated Capabilities in AI

Our Commercial Segment services Fortune 1000 and large mid-market companies. Commercial Segment revenues for the quarter declined by low double digits year-over-year due to continued softness in the more cyclical areas of our assignment business.

Despite a softer macro economy, our strategy to expand our IT commercial consulting business is working. Commercial consulting revenues were essentially flat year-over-year on a difficult prior-year comparison but improved 1.6 percent sequentially. Commercial consulting bookings of \$327.4 million puts our book-to-bill at 1.2 times on a trailing twelve-month basis.

From an industry perspective, we saw year-over-year growth in one of our five commercial verticals. TMT revenues improved 7.2 percent compared to the second quarter of 2023, led by double-digit growth in Telecommunications and e-Commerce. Sequentially, TMT revenues improved 8.0 percent, while Consumer & Industrial revenues increased 3.1 percent. Taking into account the additional Billable Day in Q2 2024, we also saw sequential growth in 10 sub-verticals, including Regional Banks, Diversified Financials, Utilities, Materials, Consumer Discretionary, Telecommunications, e-Commerce, Tech Hardware, Software and Services, and Business Services. Although, it remains encouraging to see these sequential improvements, we believe we have not yet seen an inflection point in IT spending.

As we move up the IT services pyramid toward higher-end consulting work, we are adding new skillsets to our project teams, including solution architects. Our ability to add advanced skillsets to our project teams offers the opportunity to improve our margins, expand our contract sizes and lengths, and enhance our industry vertical performance. It also reflects the high value our clients attribute to ASGN to solve their complex IT problems.

Identifying use cases for Gen AI is one of those complex problems. While use cases are growing, we are still in the early stages of AI implementation. ASGN's solutions capabilities across disciplines enables us to differentiate our AI services, and so we are deploying a multi-layered approach to our AI new business efforts. Data is the fuel for AI, so our Data and Analytics practice is naturally at the forefront of our AI engagements. AI is also compute-intensive, so our Cloud and Infrastructure team is working diligently to create AI solutions that can scale. Finally, AI must be secure, so our Cyber practice plays an integral role in use case development.

Our clients are readily relying on us to conduct business case and technical assessments to understand where to apply this novel technology, so let me provide some examples of the projects won during the quarter. We provide these engagement examples to give a sense of the work we are performing and ASGN's ability to bring a combination of IT and AI to address our clients' needs.

In Q2, for a multinational beauty company, we began implementing a pilot of Microsoft Fabric to enhance our client's cloud-based FinOps management solution. By piloting this AI-powered analytics and data platform, our client is gaining actionable insights to better forecast and control their cloud efficiency. Microsoft Fabric is a critical priority across our customer base, and we recently launched our first listing on the Microsoft Azure Marketplace - a consulting workshop on Fabric. Participating in the Azure Marketplace provides our commercial consulting practice with the opportunity to accelerate growth, increase brand awareness, and, importantly, build new client relationships.

In another contract won during the second quarter, our Data and AI team in Mexico was engaged by a lifestyle brand to develop a roadmap to implement a data solution on Google Cloud. This project involves expertise across several technologies, such as GitHub, BigQuery, and a Gemini-based accelerator. By following an agile approach and deploying an AI-powered accelerator, our consulting team improved their velocity of implementation by three times without sacrificing quality of service. This project is on track to hit its first milestone in Q3, a complete migration to Google Cloud.

Also, during the second quarter, our Mexico Delivery Center supported a Fortune 500 gaming company with application development and modernization. Our technical architects, GitHub-trained Copilot developers, and program managers, all collaborated closely with our client to develop a roadmap for the creation of a custom in-gaming tool. This is a three-year engagement with our delivery team scaling up over the project lifecycle.

Finally, another consulting project won during the quarter was a Threat & Vulnerability Management assessment performed for one of our large healthcare payer clients. Our client was looking to enhance their vulnerability management capabilities and ensure that their operating systems were up to industry standards. By migrating our client's primary threat scanning tool from on-premise to a hybrid cloud solution, our commercial team helped our client mitigate future risks. This cloud solution broadened our client's scanning scope and significantly reduced threat scanning time.

Federal Government Segment – Continued Re-Compete Progress

Let's now turn to our Federal Government Segment, which provides advanced IT solutions to the Department of Defense, the intelligence community, and federal civilian agencies. Federal Segment revenues for the quarter declined low single-digits year-over-year but improved on a year-to-date basis.

Contract backlog was \$2.8 billion at the end of the second quarter, or a coverage ratio of 2.2 times the segment's trailing twelve-month revenues. New contract awards were \$194.3 million, putting our book-to-bill at 0.7 times on a trailing twelve-month basis.

Task orders under IDIQs won in Q4 2023 have not materialized as quickly as we originally anticipated. In addition, while our core government services revenues continued to grow, lower-than-expected pass-through licensing fees impacted our second quarter

results. Marie will speak further about this topic later in today's call. On a positive note, we are already seeing a greater flow of task orders begin to be released in the third quarter. I'll provide an update on those shortly.

As we prepare for new task orders, like with our Commercial Segment, we are actively upskilling our Federal Government professionals in Gen AI. Through our Data & AI Center of Excellence, we are training our professionals in our proprietary large language models, along with publicly available Gen AI services such as ChatGPT, Gemini, and Copilot. Our government teams are also earning in-demand AI professional certifications. These training and certification opportunities expand our professionals' skillsets, enhance our technology partnerships, and provide us the ability to create internal use cases to improve ASGN's overall efficiencies.

During the second quarter, we began receiving task orders under the \$1.25 billion re-compete DARPA IDIQ awarded to our Federal Government Segment at the end of 2023. Our team is supporting DARPA with acquisition lifecycle solutions, program oversight, and expert advisory to meet their dynamic research and development missions. At the start of July, we began receiving task orders on a \$88 million single award re-compete contract with the Missile Defense Agency in which we are providing business operation and modernization support services, along with business intelligence and analytics solutions. While work began under this contract in Q3, it is reflected in our Q2 2024 backlog.

In addition to those contracts already booked into backlog, in Q2 2024, our Justice Solutions team won a prime spot on a re-compete award with the FBI. This \$8.0 billion, eight-year, Information Technology Supplies and Support Services contract, is the largest contract vehicle ever established by the FBI. This contract allows our Federal Government Segment to expand the critical IT services and technology solutions it provides to the FBI to include AI-infused IT and cybersecurity solutions. Our Federal Government Segment has supported the FBI for over three decades, and we look forward to receiving task orders under this contract, which will add to our bookings' performance.

With that, I'll now turn the call over to Marie to discuss the second quarter results and our third quarter guidance.

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

Q2 2024 Financial Performance and Q3 2024 Financial Estimates

Second quarter revenues were \$1.035 billion and reflect the sequential steadiness we expected in our Commercial Segment, offset by lower-than-expected license revenues in our Federal Government Segment.

Revenues from the Commercial Segment were \$725.7 million, down 10.6 percent compared to the prior year and flat sequentially. Revenues from commercial consulting, the largest of our high-margin revenue streams, totaled \$281.5 million, essentially flat year-over-year and up 1.6 percent sequentially.

Revenues from our Federal Government Segment were \$309.0 million, a decrease of 3.3 percent year-over-year.

When we spoke last quarter, I noted that we anticipated our Federal Government Segment's performance in the second quarter of 2024 would be similar to the prior-year quarter. This assumption was based on the belief that we would have a consistent level of software license revenues year-over-year. While our core services revenues for the segment continued to grow, as Ted noted, licensing revenues in the second quarter of 2024 were lower than our expectations. This resulted in the revenue shortfall for the quarter. Our Commercial Segment, on the other hand, performed as anticipated.

Turning to margins. Gross margin for the second quarter of 2024 was 29.1 percent, an increase of 20 basis points from the second quarter of last year.

Gross margin for the Commercial Segment was 32.7 percent, up 50 basis points year-over-year, reflecting a higher mix of consulting revenues as well as margin expansion for both consulting and assignment revenues. Gross margin for the Federal Government



Segment was 20.6 percent, up 10 basis points year-over-year primarily due to lower licensing revenues, which carry a lower gross margin.

SG&A expenses for the quarter were \$205.6 million, compared to \$210.5 million in the second quarter of 2023. SG&A expenses also included \$1.2 million in acquisition, integration, and strategic planning expenses that were not included in our guidance estimates.

For the quarter, net income was \$47.2 million, Adjusted EBITDA was \$117.1 million, and Adjusted EBITDA margin was 11.3 percent. Adjusted EBITDA margin was at the top end of our guidance range due to improved business mix and higher gross margins.

At quarter end, cash and cash equivalents were \$132.2 million, and we had full availability under our \$500.0 million senior secured revolver, and our net leverage ratio was 1.89 times.

Turning to our cash flow statement. Free cash flow for the quarter was \$85.4 million or a conversion rate of approximately 73% of Adjusted EBITDA. Given the market opportunity, we deployed \$108.0 million in a combination of free cash flow and excess cash on the balance sheet for share repurchase. This is the second quarter in a row that share repurchases exceeded our free cash flow. We have \$667.0 million remaining under our \$750.0 million share repurchase authorization.

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.

Turning to guidance. Our financial estimates for the third quarter of 2024 are set forth in our earnings release and supplemental materials. These estimates are based on current market conditions and assume 63.5 Billable Days in the third quarter.

We expect market conditions and demand for our services in the third quarter to be similar to that of the second quarter. As it relates to Federal Government Segment revenues, we had a large amount of pass-through licensing revenues in Q3 of 2023, which we are not expecting to repeat.

With this background, for Q3 2024, we are estimating: revenues of \$1.024 billion to \$1.044 billion, net income of \$45.8 million to \$49.4 million, Adjusted EBITDA of \$114.0 million to \$119.0 million, and Adjusted EBITDA margin of 11.1 percent to 11.4 percent.

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

THEODORE S. HANSON
Chief Executive Officer:

Committed to our Core Values

We began today's discussion with a review of the macro environment. The second quarter proved much like the first, with clients continuing to position themselves more cautiously than in prior cycles. As evident from the guidance Marie just discussed, we anticipate a continued steadiness in the third quarter.

On a positive note, as I mentioned previously, government bookings have begun to pick up in the third quarter. In July, we received funding under a re-compete contract with the NYPD for cybersecurity and other systems support. In addition, I am pleased to announce that we just last week were awarded a \$1.1 billion IDIQ with the National Institutes of Health (NIH). Our Federal Government Segment is one of seven awardees who have been tasked to support the NIH over a five-year period with its critical IT needs. Once task orders begin to be released, our team's scope of work will include developing data management and analytics solutions using AI/ML, visualizations, and other advanced analysis techniques.

As is evident from these recent awards, despite the current market conditions, we have not shifted our strategy or core belief system. At ASGN, we believe in the IT services sector. We believe in being more consultative, and we believe in large, industry-diverse, enterprise accounts. These three focal areas, along with our variable cost structure, provide support to our business



throughout economic cycles. Market headwinds will ultimately reverse, and ASGN's business is better positioned than it has ever been to capture in-demand IT consulting opportunities.

As we expand our IT consulting business, we are adding directors and advisors to our board who enhance the strategic vision and operational expertise necessary to forge our path forward. In June, we welcomed Patty Obermaier to our Board of Directors. Patty is the Chief Growth Officer for Microsoft's Global Health Life Sciences Division. She has served as an advisor to our Board since January, and we are excited to officially welcome her and her more than three decades of IT consulting experience to ASGN.

Speaking about the topic of governance, in June, ASGN released its fifth annual Environmental Social Governance Report. We have made great strides in our ESG reporting over the past year, building upon the foundation we established in prior years, while also evolving our capabilities with key sustainability frameworks and regulatory standards.

That concludes our prepared remarks. I'd like to express my gratitude to the entire ASGN family for your support this past quarter. Industry dynamics may shift and the macroeconomy will fluctuate, but your commitment to being one of our clients' most trusted IT partners has not wavered.

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