Q3 2017
CONFERENCE CALL

PREPARED REMARKS FROM:

Peter T. Dameris, Chief Executive Officer, On Assignment, Inc.
Edward L. Pierce, Chief Financial Officer, On Assignment, Inc.
Theodore S. Hanson, President, On Assignment, Inc.
Randolph C. Blazer, President, Apex Systems, LLC

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THIRD QUARTER 2017 FINANCIAL RESULTS CONFERENCE CALL
OCTOBER 25, 2017
PREPARED REMARKS

EDWARD L. PIERCE
CFO, On Assignment:

Good afternoon and thank you for joining us today. Before we get started, I would like to remind everyone that our presentation contains forward-looking statements. Although we believe these statements are reasonable, they are subject to risks and uncertainties and 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 the 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.

Please note that on this call we will be referencing certain non-GAAP measures, such as Adjusted EBITDA and Adjusted Net Income. These non-GAAP measures are intended to supplement the comparable GAAP measures. Reconciliations between the GAAP and non-GAAP measures are included in today's press release.

I will now turn the call over to Peter Dameris, our CEO, who will provide an overview of our results for the quarter.

PETER T. DAMERIS
CEO, On Assignment:

I would like to welcome everyone to the On Assignment 2017 third quarter earnings conference call. With Ed and me today are Ted Hanson, President of On Assignment and Rand Blazer, President of Apex Systems.

During our call today, I will give a review of the markets we serve and our financial highlights, followed by a discussion of the performance of our operating segments by Ted and Rand. I will then turn the call over to Ed for a more detailed review and discussion of our third quarter results and our estimates for the fourth quarter of 2017. We will then open the call up for questions.

Now, on to the third quarter results. Our results for the third quarter exceeded the high-end of our previously announced financial estimates for adjusted EBITDA and earnings per share and were within the range of our estimates for revenues and gross margin. Revenues for the quarter were $667.1 million, up 6.0 percent year-over-year, or 6.6 percent on a same "Billable Day" and "Constant Currency" basis.

This marked the fifteenth consecutive quarter that our company grew above the IT staffing industry's projected annual growth rate. Our growth rate reflected, among other things, the continued deepening of many larger new customer relationships that we have established over the last four years, the continuing increase in the rate of adoption of our delivery model, an improvement of the operating performance of Oxford and CyberCoders and the continued expansion of our SOW business.

Third quarter year-over-year revenue growth was negatively affected approximately $1.0 million from Hurricanes Harvey and Irma and $5.3 million from 0.5 fewer billable days in the third quarter of 2017 versus the third quarter of 2016. The acquisition of StratAcuity added $3.0 million in revenue during the third quarter.

Adjusted EBITDA for the quarter was $83.4 million or 12.5 percent of revenues, compared with $77.8 million or 12.4 percent of revenues in the third quarter of 2016. Cash generation continues to be at or above our expectations.

Financial performance in the quarter was driven by strong revenue growth at Apex Systems, Creative Circle and CyberCoders. Revenue growth came from our local, mid-market, and large national accounts, reflecting strong customer demand. Our size and service offerings allow us to grow faster than published staffing industry growth rates and we believe that we are well positioned to generate solid above-market revenue growth in the future.

Our IT business continues to see high demand from its customers, driven in part by greater adoption of staff augmentation as a viable alternative to outsourcing, offshoring and consulting. Wage inflation continues to be manageable.

With respect to recent production, our weekly assignment revenues, which exclude conversion, billable expenses and direct placement revenues averaged $49.5 million for the last two weeks, up 5.5 percent over the same period in 2016.

Since closing the Creative Circle acquisition on June 5, 2015, we have repaid $286.5 million of our debt. Our leverage ratio was 2.08 times trailing twelve months Adjusted EBITDA as of September 30, 2017. We estimate our leverage ratio will be approximately 1.91 times by the end of the fourth quarter of 2017.

As you will recall, we announced on June 13, 2016 that our Board of Directors authorized a new $150 million share repurchase program. Since inception, we have repurchased approximately 2.4 million shares at an average price of $42.81. During the third quarter, we repurchased 999,618 shares at an average price of $47.90. We intend to continue to execute our share repurchase program based on share price and market conditions.

During the quarter we repriced our term loan and revolver facilities resulting in a 25 basis point reduction in the interest rate. We believe that based on our current outstanding debt balances these repricings will save us $1.6 million annually, assuming no further repricing.

We continue to see signs that the ongoing debate regarding the “on demand” workforce or “gig-economy” is accelerating the usage of contract labor. “Fractionalization of human capital” by using the staffing industry’s services is the only way to avoid the risk of misclassification of employees as independent contractors. Our customers have and are realizing this and that is why we believe the secular growth opportunities for the entire professional staffing industry are so attractive. We also believe that we are well positioned to service our customers' IT needs as technology rapidly evolves and is adopted.

Throughout this year, we continued to benefit from the ongoing debate regarding H-1B Visa reform and further adoption of our development/deployment model (i.e. staff augmentation). Recently signed executive orders have only further solidified the trend towards adoption of our model versus offshoring. Our Industry association has had several meetings with Congressmen and Senator’s staff and proposed legislation continues to favor the provisioning of domestic IT labor.

I would now like to turn the call over to Ted Hanson, who will review the operations of the segments and then over to Rand.

THEODORE S. HANSON
President, On Assignment:

Revenues from our Apex and Oxford Segments grew collectively 6.0 percent year-over-year. Both segments performed about as we expected coming into the quarter. Apex Systems, our largest division, continued to achieve growth rates above the market growth rate and led the performance of their segment which Rand will discuss in a few minutes. Creative Circle performed slightly better than our initial expectations and Apex Life Sciences performed slightly below our expectations coming into the quarter. In the Oxford Segment, CyberCoders and our Life Sciences Europe divisions both grew nicely above their respective market growth rates. Demand in the end markets we serve, IT, Creative/Digital/Marketing, Engineering and Life Sciences remains steady. Now on to the results of the Oxford Segment.

The Oxford Segment is comprised of Oxford Core, CyberCoders, our permanent placement business, and Life Sciences Europe. For the third quarter of 2017, Oxford Segment revenues were $149.6 million, down 4.0 percent year-over-year and down 3.3 percent on a same billable day basis. Revenues decreased 0.9 percent for the segment on a sequential basis and increased one percent based on same billable days. The impact of the hurricanes in Houston and Florida had a negligible effect on third quarter revenues, however, we do expect that Hurricane Irma, which caused our Oxford Palm Beach Gardens national recruiting center to close for nearly one production week, will have a larger impact on revenues in the fourth quarter of 2017.

Oxford Core revenues, which account for 74.8 percent of the segment revenues, were down mid-single digits year-over-year but were slightly better than our initial forecast. The decline in revenue is attributable to the successful completion of two large projects in the fourth quarter of last year which we have mentioned on this call in prior quarters. Despite the difficulty in growing over these significant projects on a year-over-year basis, Oxford Core revenues are growing sequentially, on an adjusted per billable day basis. We continue our hard work in this unit to improve growth rates and profitability levels which I will address in a few moments. CyberCoders, our permanent placement service offering, which accounts for 95.8 percent of the segment's permanent placement revenues, was up low-single digits year-over-year. CyberCoders momentum was positive throughout the quarter. Our Life Sciences offerings in Europe, the smallest contributor to total segment revenue, were up year-over-year high-single digits primarily due to a favorable foreign exchange rate or 2.2 percent on a constant currency basis and were solidly above our initial forecast. Demand for life sciences skillsets in their Benelux geographic markets remains strong.

Gross margin for the segment was 41.8 percent, up 110 basis points year-over-year which was slightly ahead of our initial expectations for the quarter. Improvement in gross margin was primarily driven by higher contribution of revenue from CyberCoders and improving pay to bill margin within the Oxford Core business.

Based on the above, and better expense management within the Oxford Core unit specifically, the Segment's Adjusted EBITDA results exceeded both our expectations and the prior year, as well as coming in above the second quarter of 2017. Much of the hard work pointed at improving lost EBITDA margin at Oxford Core is now beginning to show itself in this quarter’s results. During the third quarter and moving into the fourth quarter, we are squarely focused on re-positioning our go-to-market strategy and installing a more progressive sales strategy in order to find better growth on the top line. While we expect to finish these activities in the coming weeks, we do not expect to see the fruits of those activities until mid-year 2018.

I will now turn the call over to Rand Blazer.

RANDOLPH C. BLAZER
President, Apex Systems:

The Apex Segment, which consists of Apex Systems, Apex Life Sciences and Creative Circle business units, reported solid results for the quarter. Revenues for the Segment were $517.5 million, up 9.3 percent year-over-year on a reported basis but up 10.2 percent on a same "Billable Day" basis as there were 0.5 fewer billing days in the quarter compared to last year’s third quarter. Apex Systems, which accounts for 74.8 percent of the Segment’s revenues, reported double-digit revenue growth once again. Our Creative Circle unit was up mid-single digits, and the Life Sciences’ unit, including the impact of the StratAcuity acquisition, was up low-single digits in the third quarter on a same "Billable Day", year-over-year basis. It should be noted that the Apex Segment’s revenue growth remained strong despite the hurricanes experienced in this quarter. While there has certainly been some impact to revenues in the quarter, the full impact of the hurricanes may include some impact in future quarters as the rebuilding by our clients and the productivity of our teams get back to more normal conditions.

Gross Margin for the Segment was 30.1 percent, which was 20 basis points lower than the third quarter of 2016, due mostly to a lower mix of permanent placement revenues across the Segment. Pricing otherwise, i.e. bill rate and pay rate differentials, remained stable in our end markets. Our Segment's EBITDA contribution continues to reflect high conversion of gross profit to EBITDA across all three Segment units. This performance continues to be driven by continued improvement in the productivity of our sales, delivery and infrastructure teams.

As we usually do on these calls, we will give you insights with respect to factors driving Apex Systems', our IT staffing division's revenue growth. Apex Systems' revenue growth was the highest in our Segment and was propelled by a number of factors including:

- Continued high growth in our accounts in four of the seven industry verticals we service, with double-digit revenue growth in Aerospace and Defense, Technology, Consumer Industrial and Financial Services Industry accounts.
- Business Services, Telecommunications, and Healthcare industry accounts also exhibited positive growth year-over-year.
- Top accounts continue to lead the way with double-digit year-over-year growth while retail accounts showed improved performance with low single digit growth year-over-year.
- Our bookings for SOW type work remain strong in the quarter and continue to exceed our expectations.
- Finally, as mentioned, field productivity continued strong in the quarter supporting Apex Systems revenue and unit EBITDA performance.

Now turning to our other units, Creative Circle grew its revenues at mid-single digit levels in the quarter and continues to post lower results in permanent placement revenues versus our expectations. We also saw some up and down in job order flow for assignment revenue in the quarter impacting overall revenue performance particularly in late July and August. Our Life Sciences business was up 3.8 percent including the impact of StratAcuity but down slightly organically in revenue growth for the quarter. Overall, as I said, the Apex Segment had another solid quarter with double-digit same "Billable Day" adjusted revenue growth and with each of its business units contributing steady margins.

I will now turn the call over to Ed Pierce to discuss On Assignment's overall financial results.

EDWARD L. PIERCE
CFO, On Assignment:

Our reported revenue growth rate for the quarter was 6.0 percent, which was in line with our previously-announced estimates. After adjusting for year-over-year differences in "Billable Days" and foreign exchange rates, our revenue growth rate was approximately 6.6 percent. Revenues for the quarter were adversely affected approximately $1.0 million from the hurricanes and related flooding in Texas and Florida and included a $3.0 million contribution from StratAcuity, which was acquired in August.

Assignment revenues for the quarter were $634.4 million, up 6.4 percent year-over-year. Permanent placement revenues were $32.7 million, down 0.8 percent year-over-year. CyberCoders, which accounts for 63.2 percent of our consolidated permanent placement revenues, grew 2.3 percent year-over-year, while permanent placement revenues at our other divisions were down.

Our Apex Segment, which accounted for 77.6 percent of consolidated revenues, grew 9.3 percent year-over-year. Our Oxford Segment, which accounted for 22.4 percent of revenues, was down 4.0 percent year-over-year mainly related to lower revenues from two large projects that were largely completed in 2016. Excluding revenues from those two projects, revenues for the segment were flat year-over-year.

Gross margin for the quarter was 32.7 percent, which was in line with our previously-announced financial estimates. Gross margin was down 20 basis points year-over-year due to a lower mix of permanent placement revenues, which was 4.9 percent of revenues down from 5.2 percent in the third quarter of last year.

SG&A expenses were $149.2 million, or 22.4 percent of revenues. After adjusting for $1.5 million in acquisition, integration and strategic planning expenses, which were not in our financial estimates, our SG&A expenses were below our financial estimates. This favorable variance was primarily due to lower compensation expense as average staffing consultant headcount for the quarter was below forecasted levels. Based on our current hiring and turnover estimates, our average headcount levels should be more in line with our targets we have for the fourth quarter.

Interest expense for the quarter was $7.1 million, down from $8.3 million in the third quarter of 2016. Interest expense for the quarter included $0.8 million in costs related to the two amendments to our credit facility that lowered the interest rate 25 basis points. The year-over-year decrease in interest expense reflected a lower outstanding debt balance and lower interest rates as a result of the amendments to our credit facility.

Our effective tax rate for the quarter was 35.1 percent, down from 37.8 percent in the second quarter of 2017. The sequential improvement primarily related to an increase in our hiring-related tax credits. The provision for the quarter also benefited from $0.4 million in excess tax benefits related to stock-based compensation. The additional hiring-related tax credits and excess tax benefits on stock-based compensation were not included in our financial estimates. We estimate that our effective tax rate for the fourth quarter will be approximately 38.5 percent before any excess tax benefits for stock-based compensation.

Net Income for the quarter was $34.9 million, or $0.66 per diluted share, up from $29.8 million, or $0.55 per diluted share in the third quarter of last year.

Adjusted EBITDA for the quarter was $83.4 million, cash flows from operating activities were $53.7 million and free cash flow, a non-GAAP measure, was $48.9 million. During the quarter, we used cash of $47.9 million to repurchase approximately 1.0 million shares of our common stock. During the twelve months ended September 30, 2017, we generated free cash flow of $169.1 million, of which we used $78.5 million to repurchase stock, $51.5 million to pay down our debt and $25.9 million to acquire StratAcuity. Subsequent to the end of the quarter, we paid down our debt by an additional $14.0 million.

Now turning to our financial estimates for the fourth quarter of 2017. We are estimating revenues of $658.0 to $668.0 million; Net Income of $30.9 to $32.7 million, or $0.59 to $0.62 per diluted share; and Adjusted EBITDA of $77.5 to $80.5 million. These estimates do not include any acquisition, strategy or integration expenses or excess tax benefits related to stock-based compensation. Our estimates assume that growth at Creative Circle will be mid-single digits and that StratAcuity will generate approximately $5.0 million in revenues.

Our revenue estimates assume 60.0 "Billable Days", which is 0.2 fewer than the fourth quarter of last year and 2.6 fewer than the preceding quarter. Each "Billable Day" is approximately $11.0 million in revenues. On a same "Billable Days" basis, our implied year-over-year revenue growth rate for the fourth quarter ranges from 6.3 to 7.9 percent, or 5.5 to 7.1 percent, excluding the estimated contribution from StratAcuity.

I will now turn the call back over to Peter for some closing remarks.

PETER T. DAMERIS
CEO, On Assignment:

We continue to believe our scale, size and breadth of services has us well positioned to take advantage of what we believe will be historic secular growth for the staffing industry and dynamic changes in the technology world as it moves more into the digital one. While the entire On Assignment team is very proud of our performance, we remain focused on continuing to profitably grow our business and increase our rate of growth. We would like to once again, thank our many loyal, dedicated and talented employees whose efforts have allowed us to progress to where we are today. I would like to now open the call up to participants for questions.