Q4 2017
CONFERENCE CALL

PREPARED REMARKS FROM:
Peter T. Dameris, Chief Executive Officer, On Assignment, Inc.
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Theodore S. Hanson, President, On Assignment, Inc.
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On Assignment

FOURTH QUARTER 2017 FINANCIAL RESULTS CONFERENCE CALL
FEBRUARY 14, 2018
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.

PETER T. DAMERIS
CEO, On Assignment:

Welcome to the On Assignment 2017 fourth 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 comment on the markets we serve, our financial highlights, the ECS Federal acquisition and our name change. I will then turn the call over to Ted and Rand to discuss the performance of our operating segments and then over to Ed for a more detailed review and discussion of our fourth quarter results and our estimates for the first quarter of 2018. We will then open the call up for questions.

Now, on to the fourth quarter results. Our results for the fourth quarter exceeded the high-end of our previously announced financial estimates for revenues, gross profit, earnings per share, adjusted net income and adjusted EBITDA and were within the range of our estimates for gross margin. Revenues for the quarter were $679.1 million, up 9.4 percent year-over-year.

This marked the sixteenth 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 statement of work business.

Adjusted EBITDA for the quarter was $82.9 million, up 17.3 percent from $70.7 million in the fourth quarter of 2016. Cash generation continues to be at or above our expectations and since closing the Creative Circle acquisition we have repaid $287.0 million of our debt. Our leverage ratio was 1.89 times trailing twelve months Adjusted EBITDA as of December 31, 2017. We estimate our leverage ratio will be approximately 1.81 times by the end of the first quarter of 2018, excluding any costs associated with the recently announced acquisition of ECS Federal.

Financial performance in the quarter was driven by strong revenue growth at Apex Systems and CyberCoders and improving revenue trends at Creative Circle. Customer demand was strong across our local, mid-market, and large national accounts. 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.

With respect to recent production, our weekly assignment revenues, which exclude conversion, billable expenses and direct placement revenues averaged $51.2 million for the last two weeks, up 9.6 percent over the same period in 2016.

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. We believe that we are well positioned to continue to service our customers' IT needs as technology rapidly evolves and is adopted.

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, thus creating attractive secular growth opportunities for the entire professional staffing industry.

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.

As a reminder, we announced on January 31, 2018 that we signed a definitive agreement to acquire ECS Federal, LLC, one of the largest privately-held government services contractors, for $775 million in cash. ECS delivers cyber security, cloud, DevOps, IT modernization and advanced science and engineering solutions to the U.S. Federal government. This acquisition nearly doubles our addressable end market to $279 billion as we enter the $129 billion Government Services space and ECS' highly specialized skill offerings strengthen our position as a premier human capital provider and complements our highly technical IT offerings. ECS' domain expertise and first-hand experience will position our combined company well to support commercial engagements in cyber security, artificial intelligence and biometrics.

Before I turn the call over to Ted, I would like to briefly comment on our decision to rename On Assignment to ASGN, Incorporated effective April 2, 2018. In 1985, On Assignment commenced operations as a scientific staffing firm and has expanded its service offerings to include IT, digital/creative and engineering via acquisitive and organic growth to meet the ever-changing needs of its diverse client base. As we look to the future, our mission as an organization is to be the premiere provider of highly skilled human capital targeting critical STEM skill sets that will drive the economy for the next 20 years and beyond. As we prepare to change our name, I would like to reflect on and acknowledge that our success is the direct result of the hard work of our many dedicated employees and billable professionals and I would like to thank the entire organization for its continued commitment to excellence.

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 9.4 percent year-over-year for the fourth quarter and 7.6 percent for the full year 2017. Both segments performed better than 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. Demand in the end markets we serve, IT, Creative/Digital/Marketing, Engineering and Life Sciences remains steady.

Now onto the results of the Oxford Segment, which is comprised of Oxford Core, CyberCoders, our permanent placement business, and Life Sciences Europe. Oxford Core and CyberCoders performed better than our expectations coming into the quarter, with Life Sciences Europe performing slightly below initial expectations.

For the fourth quarter of 2017, Oxford Segment revenues were $144.4 million, down 0.3 percent year-over-year. Revenues decreased 3.5 percent for the segment on a sequential basis but increased 0.9 percent based on a same billable days basis. There were 2.7 fewer billable days in the fourth quarter of

2017 versus the third quarter of 2017. Segment revenues for the year were $588.8 million, down 2.5 percent over 2016.

Oxford Core revenues, which account for 75.0 percent of the segment revenues, were down 3.2 percent year-over-year, but, as mentioned above, better than our initial forecast. The decline in revenue is attributable to the successful completion of a large project in the fourth quarter of last year, which had a $4.2 million impact on revenues. Despite the difficulty in growing over this significant project on a year-over-year basis, Oxford Core revenues grew 1.9 percent sequentially on an adjusted per billable day basis. We continue our hard work in this unit to improve growth rates and profitability levels.

CyberCoders, our permanent placement service offering, which accounts for 95.7 percent of the segment's permanent placement revenues, led segment growth up low-double digits year-over-year. CyberCoders momentum was positive throughout the quarter.

Our Life Sciences offerings in Europe, the smallest contributor to total segment revenue, was up year-over-year low-single digits. Demand for our life sciences skillsets in the Benelux geographic markets remains strong.

Gross margin for the segment was 41.8 percent, up 190 basis points year-over-year. Improvement in gross margin was primarily driven by a 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. Much of the hard work pointed at improving lost EBITDA margin at Oxford Core continues to show itself in the quarter's results.

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 and finished the year strong. Creative Circle performed slightly better than our initial expectations and Apex Life Sciences performed slightly below our expectations coming into the quarter.

Revenues for the Segment in the fourth quarter were $534.7 million, up 12.3 percent year-over-year on a reported basis. Revenues for 2017 were $2.0 billion, up 10.9 percent year-over-year.

Apex Systems, which accounts for 75.5 percent of the Segment's revenues, once again reported double-digit revenue growth. Our Creative Circle unit was up mid-single digits, and the Life Sciences' unit, including the impact of the Stratacuity acquisition, was up mid-single digits in the fourth quarter.

Gross Margin for the Segment was higher year-over-year on a reported basis due to an out-of-period adjustment of $5.6 million to cost of services in the fourth quarter of 2016. Excluding this adjustment, gross margin for the Segment was down slightly year-over-year as a result of lower permanent placement revenues and higher volume discounts. However, the core bill and pay rate differentials across our business remained stable to slightly up for Apex Systems reflecting a stable pricing environment for our services.

Our Segment's EBITDA contribution continues to reflect high conversion of gross profit to EBITDA. This performance is driven by continued strong productivity of our sales, delivery and infrastructure teams.

As we usually do on these calls, we give you insights with respect to factors driving Apex Systems, our principal IT Services business unit. 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 six of the seven industry verticals we service, with double-digit revenue growth in: Aerospace and Defense, Technology, Consumer Industrial, Healthcare, Telecommunications, and Financial Services Industry accounts;
- Business Services, the seventh industry vertical, also exhibited positive mid-single digit growth year-over-year;
- Also notable was the acceleration of the growth rates in the fourth quarter in five of the seven industry verticals we service, with the rate of change increasing across those industries in excess of 500 basis points from the third quarter of 2017;
- Growth was also balanced between top accounts and retail accounts with both achieving double-digit year-over-year growth rates;
- Our bookings for SOW type work remain strong in the quarter and as has been reported in previous quarters continues to exceed our expectations; and
- Finally, as mentioned, field and back office productivity continued strong in the quarter supporting Apex Systems' EBITDA performance.

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

EDWARD L. PIERCE
CFO, On Assignment:

Revenues for the quarter were up 9.4 percent year-over-year, and up 8.6 percent excluding the $4.5 million contribution from Stratacuity, which was acquired in August 2017. Year-over-year changes in foreign exchange rates and differences in the number of "Billable Days" did not have, on a net basis, a material effect on our revenue growth rate.

Assignment revenues for the quarter were $647.5 million, up 9.4 percent year-over-year and permanent placement revenues were $31.6 million, up 9.2 percent. Gross margin for the quarter was 32.5 percent, which was in line with our previously-announced financial estimates.

SG&A expenses were $151.4 million, or 22.3 percent of revenues. After adjusting for $0.9 million in acquisition, integration and strategic planning expenses, which were not in our financial estimates, our SG&A expenses were in line with our financial estimates.

Interest expense for the quarter was $6.0 million, down from $7.0 million in the fourth quarter of 2016. Interest expense for the quarter was comprised of $5.1 million of interest on the credit facility and $0.9 million of amortization of deferred loan costs. The decrease in interest expense reflected a lower debt balance and a lower interest rate as a result of the amendments to our credit facility.

We reported an income tax benefit of $12.6 million for the quarter. This benefit included a one-time, non-cash benefit of $31.4 million related to the recently enacted Tax Cuts and Jobs Act. Excluding the one-time benefit, our income tax provision for the quarter was approximately $18.8 million, an effective tax rate of 34.3 percent, which included approximately $2.5 million in excess tax benefits from stock-based compensation.

Net Income for the quarter was $67.3 million, or $1.28 per diluted share, up from $24.0 million, or $0.45 per diluted share in the fourth quarter of last year.

Adjusted EBITDA for the quarter was $82.9 million, cash flows from operating activities were $58.3 million and free cash flow, a non-GAAP measure, was $52.0 million. For the full year 2017, we generated free cash flow of $172.2 million, of which we used $60.1 million to repurchase stock, $68.0 million to pay down debt and $25.9 million to acquire Stratacuity.

Now turning to our financial estimates for the first quarter of 2018. We are estimating revenues of $672.0 to $682.0 million; Net Income of $24.4 to $26.6 million, or $0.46 to $0.50 per diluted share; and Adjusted EBITDA of $69.0 to $72.0 million.

Our financial estimates included $10.0 million, or $7.3 million after tax, of estimated transaction costs related to the pending ECS acquisition. Other than these transaction expenses, these estimates did not include any other acquisition, strategy or integration expenses or any excess tax benefits related to stock-based compensation. These estimates do not include any expenses related to the amendment of our existing credit facilities or costs related to the new term B loan that will be used to fund the acquisition of ECS.

Our press release also included stand-alone preliminary financial estimates for ECS for the full year 2018 as if the acquisition of ECS occurred at the beginning of the year. As we stated in the release, the operating results of ECS will be included in our 2018 consolidated operating results from the date of acquisition, which is expected to be April 2nd.

The preliminary financial estimates for ECS were based on, among other things, preliminary estimates of the fair value of the assets acquired and their related service lives and the interest costs of the incremental borrowings on the new term B loan to fund the acquisition. Interest expense does not include any estimated costs or expenses related to amendments to On Assignment existing credit facilities. For 2018, we estimate revenues for ECS of $620.0 to $640.0 million, or year-over-year growth of 5.7 to 9.1 percent, a net loss of $19.0 to $14.3 million on a pro forma basis, Adjusted Net Income (a non-GAAP measure) of $26.0 to $27.7 million and Adjusted EBITDA of $70.0 to $73.5 million. Adjusted Net Income does not include the Cash Tax Savings on the tax amortization of Goodwill and Trademark, which is estimated to be approximately $9.0 million annually over the next 15 years. Reconciliations of the estimated Net Loss to Adjusted Net Income and Adjusted EBITDA were included in the press release.

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.