Q1 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

April 26, 2017

On Assignment

FIRST QUARTER 2017 FINANCIAL RESULTS CONFERENCE CALL
APRIL 26, 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 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 first 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 operational 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 first quarter results, and our estimates for the second quarter of 2017. We will then open the call up for questions.

Now, on to the first quarter results. Our results for the quarter exceeded the high-end of our previously announced financial estimates for revenue and were within the range of our estimates for adjusted EBITDA and earnings per share. Revenues for the quarter were $626.5 million, up 7.6 percent year-over-year, or 8.2 percent on a same "Billable Day" basis. This marked the thirteenth consecutive quarter that our company grew above the IT staffing industry's projected annual growth rate since January 1, 2013. Our growth rate reflected, among other things, the deepening of many new larger customer relationships that we have established over the last three years and the continuing increase in the rate of adoption of our delivery model. This quarter's year-over-year revenue growth was higher than our year-over-year growth rate for the fourth quarter of 2016, which is impressive considering normal seasonality, inclement weather affected revenues by $700 thousand and the higher adverse effect of foreign currency exchange rates impacted revenues by $1 million compared with $500 thousand in the first quarter of last year.

Adjusted EBITDA for the quarter was $64.6 million or 10.3 percent of revenues, compared with $62.4 million or 10.7 percent of revenues in the first quarter of 2016. Cash generation continues to be at or above our expectations.

Virtually all of our divisions contributed to our strong first quarter performance. Revenue growth came from our local, mid-market and large national accounts reflecting strong customer demand. Our size and service offerings enabled 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. However, in certain large accounts, there is resistance to simultaneously passing along wage increases. Going forward, due to supply/demand imbalances in IT candidates, we believe our customers, as they have always done, will permit us to increase pay wages for our consultants and thereby increase our bill rates and revenues.

With respect to recent production, our weekly assignment revenues, which exclude conversion, billable expenses and direct placement revenues averaged $47.6 million for the last two weeks, up 9.2 percent over the same period in 2016.

Since closing the Creative Circle acquisition on June 5, 2015, we have repaid $243.0 million of our debt. Our leverage ratio was 2.21 times trailing twelve months Adjusted EBITDA. During the quarter we repaid

$24.0 million of our debt. We estimate our leverage ratio to be approximately 2.14 times by the end of the second 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 1.4 million shares at an average price of $39.07. During the first quarter we purchased approximately 229 thousand shares at an average price of $44.31 and quarter-to-date we have not purchased any additional. We intend to continue to execute our share repurchase program based on share price and market conditions.

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.

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:

As Peter noted, revenues from our Apex and Oxford Segments grew collectively 7.6 percent year-over-year. The Apex Segment had another strong quarter of double digit growth driven by Apex Systems, our largest division, and Creative Circle both of which Rand will discuss in his comments. Our Oxford Segment was slightly down year-over-year. Across all of our business units, our IT, creative/digital/marketing, engineering and software/hardware offerings showed the most strength in the quarter and demand in those end markets remains very solid. Now on to the Oxford results.

The Oxford Segment is comprised of Oxford Core, CyberCoders, our permanent placement business, and Life Sciences Europe. For the first quarter of 2017, Oxford Segment revenues were $144.0 million, down 3.3 percent year-over-year, or down 2.6 percent on a constant currency basis.

Oxford Core revenues, which account for 75.5 percent of the segment revenues, were down 4.4 percent year-over-year. The decline in revenues is attributable to the completion of two large projects and lower contribution of permanent placement fees. CyberCoders, our permanent placement service offering, which accounts for 95.4 percent of segment perm placement revenues, was slightly down year-over-year; however, they are up 10.4 percent sequentially as we saw momentum build throughout the quarter with March showing year-over-year growth. For CyberCoders we are seeing an increase in both opportunity flow and an improvement in the time to fill cycle.

Gross margin for the segment was 40.4 percent, down 100 basis points year-over-year. The decline is primarily related to business mix of assignment revenues to permanent placement and run-off of higher gross margin revenues from the large project completions mentioned above.

As we discussed last quarter, we continue to take actions we believe will better position Oxford with their customers as well as improve our return on invested SG&A. First, we have realigned field management and skill practices within Oxford to better leverage our competencies. Second, we are addressing the increase in field expenses, which ramped up during the second half of 2016, for which we did not earn the expected return. And finally, we remain focused on rebuilding our sales model in order to deepen our customer relationships and increase our market share. Oxford's secret sauce has always been its ability to deliver high end, hard to find talent to its customers in multiple skill disciplines via a recruiting driven model. While this will remain a core tenant of our business, we will look to leverage this best in class recruiting capability with a more progressive account focused sales strategy.
I will now turn the call over to Rand Blazer.

RANDOLPH C. BLAZER
President, Apex Systems:

The Apex Segment, which consists of the Apex Systems, Apex Life Sciences and Creative Circle business units again, reported strong results for the quarter. Revenues for the segment were $482.5 million, up 11.4 percent year-over-year. Both Apex Systems and Creative Circle, which combined account for 92.3 percent of the Segment’s revenues, reported double-digit revenue growth, while our Life Sciences’ unit was down slightly in Q1.

Gross Margin for the Segment was 29.0 percent, which was 10 basis points lower than Q1 of 2016, due to a slightly lower mix of permanent placement revenues. Pricing for the quarter remained stable in our end markets with bill pay spreads increasing slightly from the preceding quarter. Increases in top account growth for the Segment across all units had the biggest impact on the Gross Margin. Our Segment's EBITDA contribution reflected high conversion of gross profit to EBITDA driven by the increasing productivity of our sales and delivery teams.

With respect to Apex Systems, our IT staffing division, revenue growth was propelled by a number of factors including:

- Growth in five of our seven industry verticals with double-digit revenue growth in Aerospace and Defense, Financial Services, Healthcare, and Consumer Industrial accounts.
- Only the Telecommunications and Technology industry accounts exhibited slight negative growth year-over-year, although accounts in these industries were our strongest performers from a year ago.
- Top accounts continued to lead the way with double-digit year-over-year growth while retail accounts showed only slight growth.
- Our bookings for SOW type work were strong in the quarter and exceeded our expectations.
- Finally, as mentioned field productivity continued strong in the quarter supporting Apex Systems revenue performance and conversion rates.

Creative Circle continues to see good opportunities for growth with the market for creative marketing skillsets remaining strong. Similarly, we expect to see an increase in requisition flow for contract labor during the second quarter indicating some pickup in client demand for clinical and life sciences skills.

Overall, the Apex Segment had another strong quarter with double-digit revenue growth and with each of its business units contributing solid conversion of gross profit to EBITDA.

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 exceeded the high end of our previously-announced financial estimates. Our revenue growth rate for the quarter was 7.6 percent, which was 1.6 percentage points, or 27 percent higher than the published IT staffing industry growth rate. Using the same number of billable days as Q1 of last year, revenues on a same "Billable Day" basis were up 8.2 percent year-over-year. The effect of year-over-year fluctuations in foreign exchange rates was approximately $1.0 million.

Assignment revenues for the quarter were $594.5 million, up 8.2 percent year-over-year and permanent placement revenues were $32.0 million, down 1.5 percent year-over-year. While down year-over-year, permanent placement revenues were up 10.7 percent sequentially and we are estimating both sequential and year-over-year growth in Q2 of 2017.

Gross margin for the quarter was 31.6 percent, which was at the high end of our previously-announced estimates, and down 64 basis points year-over-year. This decline was primarily due to a lower mix of permanent placement revenues, which was 5.1 percent of revenues down from 5.6 percent in Q1 of last year and a higher mix of revenues from our Apex Segment, which has lower assignment gross margins.

SG&A expenses were $146.1 million, or 23.3 percent of revenues. After adjusting for $0.9 million in acquisition, integration and strategic planning expenses, which were not in our financial estimates, and incentive compensation related to higher than estimated growth in revenues and gross profit, our SG&A expenses were in-line with our financial estimates.

Interest expense for the quarter totaled $8.5 million, down from $9.0 million in the first quarter of last year. Interest expense included $2.0 million in costs related to the amendment of our credit facility in February, which among other things, reduced the interest rate on the Term B loan one-half of a percentage point and increased our capacity under the revolver to $200 million. The costs of the debt amendment were not included in our financial estimates.

Our effective tax rate was 36.2 percent, which included excess tax benefits of $1.1 million related to our equity-based compensation. These excess tax benefits were not included in our financial estimates. These benefits are the tax effect of differences between book expense and the related tax deduction for equity-based compensation. In prior periods, these benefits were accounted for as adjustments to stockholders' equity. As a result of guidance issued by the FASB last year, we, along with other public companies, are now required to flow these benefits through the provision for income taxes.

Net Income for the quarter was $22.4 million, or $0.42 per diluted share, up from $17.4 million, or $0.32 per diluted share in the first quarter of last year. Net income included acquisition, integration and strategic planning expenses, the debt amendment costs and the excess tax benefits, all of which were mentioned earlier. The after tax effect of these items totaled $0.7 million in additional expense, or 1.3 cents per diluted share.

Adjusted EBITDA for the quarter was $64.6 million, cash flows from operating activities were $43.8 million and free cash flow, a non-GAAP measure, was $37.0 million. The conversion rate of gross profit into Adjusted EBITDA was 32.6 percent and the conversion rate of Adjusted EBITDA into free cash flow was 57.3 percent. During the quarter, we repaid $24.0 million of our long-term debt and used $10.1 million of our cash to repurchase approximately 229 thousand shares of our common stock.

Now turning to our financial estimates for the second quarter of 2017, we are estimating revenues of $650.0 to $660.0 million; Net Income of $29.4 to $31.3 million, or $0.55 to $0.59 per diluted share; and Adjusted EBITDA of $76.0 to $79.0 million. These estimates do not include any acquisition, strategy or integration expenses or excess tax benefits related to equity-based compensation.

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. Operator-