Q2 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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SECOND QUARTER 2017 FINANCIAL RESULTS CONFERENCE CALL
JULY 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 second 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 second quarter results, and our estimates for the third quarter of 2017. We will then open the call up for questions.

Now, on to the second quarter results. Our results for the second 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 $653.3 million, up 7.4 percent year-over-year, or 7.6 percent on a same "Billable Day" basis.

This marked the fourteenth 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 and an improvement of the operating performance of Oxford and CyberCoders.

This quarter's revenues had an adverse effect from foreign currency exchange which impacted revenues by $723,000, compared with a $370,000 year-over-year benefit from foreign currency exchange in the second quarter of last year.

Adjusted EBITDA for the quarter was $80.5 million or 12.3 percent of revenues, compared with $74.1 million or 12.2 percent of revenues in the second 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, 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 allows 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 $48.8 million for the last two weeks, up 14.6 percent over the same period in 2016.

Since closing the Creative Circle acquisition on June 5, 2015, we have repaid $281.0 million of our debt. Our leverage ratio was 2.04 times trailing twelve months Adjusted EBITDA as of June 30, 2017. During the quarter we repaid $38.0 million of our debt. We estimate our leverage ratio to be approximately 1.91 times by the end of the third 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 second quarter, we did not repurchase any shares. 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 continue 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 7.4 percent year-over-year. The Apex Segment had another strong quarter of double digit growth driven by both Apex Systems, our largest division, and Creative Circle. Each of which grew low double digits. Creative Circle was below our growth expectations for the quarter and Apex Systems was in line with our expectations for the quarter. Rand will discuss in greater detail operating trends in each of those business units in his comments. Our Oxford Segment was slightly down year-over-year, but up sequentially and above our expectations for the second quarter. The better than expected growth in the second quarter was driven by better performance at our core Oxford IT business and continued recovery in growth at CyberCoders. We were pleased to see that all divisions grew sequentially over the first quarter of 2017. Exiting the quarter, Apex Systems, Apex Life Sciences and CyberCoders continued to grow. And the Creative Circle division showed slowing growth and is behind our internal expectations for the second half of the year. Now on to Oxford Segment results.

The Oxford Segment is comprised of Oxford Core, CyberCoders, our permanent placement business, and Life Sciences Europe. For the second quarter of 2017, Oxford Segment revenues were $150.8 million, down 2.3 percent year-over-year, or down 1.8 percent on a constant currency basis. Revenues increased 4.8 percent for the segment on a sequential basis.

Oxford Core revenues, which account for 74.9 percent of the segment revenues, were down 5.1 percent year-over-year. The decline in revenue is attributable to the successful completion of two large projects in the second 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. Adjusting for these projects, we experienced flat revenues year-over-year in IT and Life Sciences and our Software/Hardware and Engineering disciplines are in line with or above market growth rates. 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 97.0 percent of the segment's permanent placement revenues, was up 9.7 percent year-over-year and up 10.3 percent sequentially as we saw momentum build throughout the quarter. For CyberCoders the trend and momentum we discussed with you in the first quarter continues and we are seeing an increase in both opportunity flow and an improvement in the time to fill cycle. Our Life Sciences offerings in Europe, the smallest contributor to total segment revenue, were slightly up year-over-year and sequentially.

Gross margin for the segment was 41.6 percent, up 20 basis points year-over-year which was slightly ahead of our expectations. Improvement in gross margin was primarily driven by higher contribution of revenue from CyberCoders.

The Segment's Adjusted EBITDA results exceeded both our expectations and the prior year, as well as coming in significantly above the first quarter of 2017.

As we discussed last quarter, we continue to take actions we believe will better position Oxford Core with our customers as well as improve our return on invested SG&A. Oxford's differentiation in the market 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. We continue to believe that while this will remain a core tenant of our business, we are striving to leverage this best in class recruiting capability with a more progressive account focused sales strategy. Much of the hard-work related to cost-containment is in place and while we have seen some of the impact of this in the quarter, we believe that the benefit will be more visible in future quarters. This has allowed us to put more focus now on our go-to-market approach and the supporting sales strategy. The re-positioning and organizational alignment behind a more progressive sales approach are pointed at achieving higher future growth rates. Our core competency of provisioning a critical high-end resource for our customers in the midst of important projects to support their business remains steady. Furthermore, we believe that by building deeper and more sustainable long-term customer relationships, we can offer more than just one resource and still remain committed to our business model and be more important and valued by each customer. The real benefit of these changes will be experienced further out than the near term benefit of smarter SG&A investments.

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 solid results for the quarter. Revenues for the segment were $502.5 million, up 10.7 percent year-over-year. Apex Systems and Creative Circle, which combined account for 92.4 percent of the Segment's revenues, each reported double-digit revenue growth, while our Apex Life Sciences' unit was flat in Q2 on a year-over-year basis.

Gross Margin for the Segment was 29.9 percent, which was 60 basis points lower than Q2 of 2016, due to two factors: (1) a lower mix of permanent placement revenues across the Segment and (2) continued increases in top account growth for Apex Systems and Apex Life Sciences whereby these accounts generally carry a lower gross margin. Pricing for the quarter remained stable in our end markets. Our Segment's EBITDA contribution continues to reflect high conversion of gross profit to EBITDA driven by incremental improvement in the 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 IT staffing division, revenue growth. Apex Systems' revenue growth was the highest in our Segment and was propelled by a number of factors including:

- Continued growth in our accounts in four of our seven industry verticals we service, with double-digit revenue growth in Aerospace and Defense, Healthcare, Consumer Industrial and Financial Services Industry accounts
- Business Services, Telecommunications, and Technology 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 only slight growth
- Our bookings for SOW type work were also strong in the quarter and exceeded our expectations, and
- Finally, as mentioned, field productivity continued strong in the quarter supporting Apex Systems revenue and divisional EBITDA performance.

As mentioned, Creative Circle grew revenue at double digit levels in the quarter but posted lower results in permanent placement versus our expectations and we have seen some up and down in job order flow for assignment revenue in the quarter impacting overall revenue performance particularly in June. Notwithstanding, we are not seeing changes in the end market or in the skill needs from our clients. While our Apex Life Sciences business was flat in revenue growth for the quarter, flat is an improvement from the downward trend we have seen in the past two quarters.

Overall, as I said, the Apex Segment had another solid 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:

Our revenue growth rate for the quarter was 7.4 percent, which was in line with previously-announced estimates and approximately 50 percent higher than the most recent published IT staffing industry growth rate for 2017 of 5 percent. Adjusting for year-over-year differences in "Billable Days" and foreign exchange rates, our revenue growth rate was approximately 7.6 percent.

Our Apex Segment, which accounted for 76.9 percent of consolidated revenues, grew 10.7 percent year-over-year. Apex Systems and Creative Circle, the two largest divisions in this segment, both reported double-digit revenue growth in the quarter. Apex Systems, which accounted for 57.5 percent of consolidated revenues, grew 11.9 percent and Creative Circle, which accounted for 13.5 percent of consolidated revenues, grew 10.9 percent. The growth rate for Apex Systems was in line with our estimates for the quarter and Creative Circle's growth rate was below our estimates as a result of lower than expected growth in the last month of the quarter. Apex Life Sciences, which accounted for 5.9 percent of consolidated revenues, was flat year-over-year.

Our Oxford Segment, which accounted for 23.1 percent of revenues, was down 2.3 percent year-over-year, mainly related to lower revenues from two large projects that were largely completed in 2016. Excluding revenues from these two projects, revenues for the segment were up slightly year-over-year.

Assignment revenues for the quarter were $620.0 million, up 8.0 percent year-over-year and permanent placement revenues were $33.3 million, down 1.4 percent year-over-year. Although down year-over-year, permanent placement revenues were up 4.0 percent sequentially and for the third quarter of 2017, we are estimating both sequential and year-over-year growth. CyberCoders, which accounts for approximately 65.0 percent of our consolidated permanent placement revenues, grew 4.7 percent year-over-year.

Gross margin for the quarter was 32.6 percent, which was in line with our previously-announced financial estimates, but down 60 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 compared with 5.6 percent in the second quarter of last year, and a 30 basis point compression in assignment gross margins, partially due to a higher mix of revenues from Apex Systems.

SG&A expenses were $145.2 million, or 22.2 percent of revenues, and were approximately $3.0 million below our previously-announced estimates. This favorable variance was primarily due to lower front-office compensation expense as average staffing consultant headcount for the quarter was approximately 7 percent below our forecasted levels and, to a lesser extent, favorable variances in back office expenses, which include a foreign exchange gain on an intercompany loan, lower healthcare expenses and vendor rebates. Based on our current hiring and turnover estimates, our average headcount levels should be more in line with our targets for the second half of the year.

Interest expense for the quarter totaled $6.1 million, down from $8.0 million in the second quarter of last year. Interest expense for the quarter was comprised of $5.3 million of interest on the credit facility and $0.8 million of amortization of deferred loan costs.

Our effective tax rate was 37.8 percent, which included excess tax benefits of $0.5 million related to our equity-based compensation. These excess tax benefits were not included in our financial estimates and reflect the tax effect of differences between book expense and the related tax deduction for equity-based compensation.

Net Income for the quarter was $33.1 million, or $0.62 per diluted share, up from $26.0 million, or $0.48 per diluted share in the second quarter of last year.

Adjusted EBITDA for the quarter was $80.5 million, cash flows from operating activities were $39.8 million and free cash flow, a non-GAAP measure, was $33.4 million. During the quarter, we repaid $38.0 million of our long-term debt.

Now turning to our financial estimates for the third quarter of 2017, we are estimating revenues of $660.0 to $670.0 million; Net Income of $31.4 to $33.3 million, or $0.59 to $0.62 per diluted share; and Adjusted EBITDA of $79.0 to $82.0 million. These estimates do not include any acquisition, strategy or integration expenses or excess tax benefits related to equity-based compensation.

Our revenue estimates assume 62.6 "Billable Days" during the quarter, which is one-half of a day fewer than the third quarter of 2016. On a same "Billable Days" basis, our implied year-over-year revenue growth rate for the third quarter ranges from 5.7 to 7.3 percent. Our estimates also assume a lower growth rate at Creative Circle than the second quarter of 2017. Although Creative Circle grew above 10 percent in the second quarter of 2017, its growth rate dropped to mid-single digits in the last month of the second quarter, which we believe might continue through most of the third quarter.

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-