

ASGN Inc.

4Q's solid beat is dampened by weak 1Q outlook

Reiterate Rating: UNDERPERFORM | PO: 70.00 USD | Price: 94.37 USD

4Q beat on better-than-expected sales but lackluster guide

4Q's \$1.45 EPS was above our/Visible Alpha's \$1.39/\$1.37E. The beat was largely driven by higher sales ((6.6)% vs. our/the Street's (8.4)% as Government was strong (+9.2%). EBITDA margin was largely in line at 11.3% as ASGN continues to lean on its variable cost structure and tightly control costs. ASGN guided 1Q EPS to \$1.10-1.18 (below our/the Street's prior \$1.34/1.28E) on a 6.8-8.3% sales decline and 50-80bp of EBITDA margin contraction to 10.1-10.4%. We're lowering our 2024E EPS by 50c to \$5.75 and cutting our 2025E EPS by 69c to \$6.15 on a more cautious sales outlook. We're maintain our \$70 PO, but are rolling forward our valuation to 2025E estimates. Our valuation multiples are unchanged (11x 2025 EPS and 14x 2025 EPX ex amortization). We reiterate our Underperform as ASGN's staffing business remains under pressure.

Staffing continues to soften

4Q staffing demand weakened further from 3Q as clients deferred projects and managed costs amid a tough economic environment. Seasonality also played a role. 4Q assignment sales fell 18.4% (and (1.6)% q/q) on a same-day basis. Permanent staffing was down ~11% q/q (to 2.4% of sales from 2.6% in 3Q). Management expects permanent staffing to remain at this lower mix of sales going forward. With regards to staffing trends, management remain bullish on the long-term, but does not expect an inflection in 1Q. Guidance implies a y/y decline in 1Q24 staffing; we model (11.5)%.

Consulting revenue relatively resilient but weakening

Consulting organic revenues grew 1.7%, further decelerating from 3Q's +2.1% and 2Q's +14.0%. Sales cycles this quarter remained slow and books are skewing more towards renewals than new work compared to earlier in the year. We model consulting revenues (3)% in 1Q/2Q assuming these challenges persist given ongoing economic uncertainty and weak employer confidence.

Government strength driving mix-shift pressure

4Q adj. EBITDA margin fell 20bp to 11.3%, roughly in line with consensus and vs. 11.1-11.3% guidance. 1Q margin guide was 10.1%-10.4% below our/the Street's 11.2/10.8% driven by a negative mix-shift from lower-margin federal sales and operating deleverage on lower commercial revenues, partly offset by tight cost management.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.57	6.09	5.75	6.15	6.91
GAAP EPS	5.21	4.50	4.45	4.99	5.74
EPS Change (YoY)	20.1%	-7.3%	-5.6%	7.0%	12.4%
Consensus EPS (Bloomberg)			5.91	6.74	7.46
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	14.4x	15.5x	16.4x	15.3x	13.7x
GAAP P/E	18.1x	21.0x	21.2x	18.9x	16.4x
EV / EBITDA*	10.2x	11.0x	11.8x	11.5x	10.7x
Free Cash Flow Yield*	5.8%	8.9%	5.5%	6.4%	7.0%

* For full definitions of *IQmethod*SM measures, see page 4.

08 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	4,438.6	4,377.9
2025E Rev (m)	4,756.2	4,629.6
2026E Rev (m)	5,073.4	4,927.5
2024E EPS	6.25	5.75
2025E EPS	6.84	6.15
2026E EPS	7.64	6.91

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Stock Data

Price	94.37 USD
Price Objective	70.00 USD
Date Established	26-Oct-2023
Investment Opinion	B-3-9
52-Week Range	63.27 USD - 97.43 USD
Mrkt Val (mn) / Shares Out (mn)	4,700 USD / 49.8
Free Float	96.3%
Average Daily Value (mn)	21.58 USD
BofA Ticker / Exchange	ASGN / NYS
Bloomberg / Reuters	ASGN US / ASGN.N
ROE (2024E)	14.1%
Net Dbt to Eqty (Dec-2023A)	45.5%
ESGMeter TM	High

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Timestamp: 08 February 2024 12:30AM EST

iQprofileSM ASGN Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	12.0%	11.1%	13.7%	10.5%	11.6%
Return on Equity	17.9%	15.6%	14.1%	14.1%	14.6%
Operating Margin	9.1%	8.4%	8.0%	7.9%	8.0%
Free Cash Flow	270	417	258	301	331

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.5x	1.1x	1.2x	1.2x
Asset Replacement Ratio	0.4x	0.4x	0.4x	0.5x	0.5x
Tax Rate	26.6%	26.3%	26.2%	26.2%	26.2%
Net Debt-to-Equity Ratio	52.4%	45.5%	43.0%	32.9%	22.3%
Interest Cover	9.1x	5.7x	7.9x	6.7x	9.7x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,581	4,451	4,378	4,630	4,928
% Change	14.3%	-2.8%	-1.6%	5.7%	6.4%
Gross Profit	1,370	1,280	1,242	1,322	1,411
% Change	19.9%	-6.5%	-3.0%	6.4%	6.7%
EBITDA	559	517	482	497	531
% Change	15.8%	-7.5%	-6.9%	3.2%	7.0%
Net Interest & Other Income	(55)	(78)	(223)	(54)	(40)
Net Income (Adjusted)	337	297	268	281	313
% Change	15.1%	-11.9%	-9.6%	4.9%	11.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	267	219	207	228	260
Depreciation & Amortization	91	96	90	87	89
Change in Working Capital	(141)	56	(51)	(28)	(33)
Deferred Taxation Charge	32	4	9	9	9
Other Adjustments, Net	59	82	42	46	50
Capital Expenditure	(38)	(40)	(39)	(41)	(44)
Free Cash Flow	270	417	258	301	331
% Change	70.0%	54.3%	-38.2%	16.8%	9.9%
Share / Issue Repurchase	(263)	(254)	(225)	(150)	(150)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	32	(24)	(11)	(335)	(149)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	70	176	198	13	45
Trade Receivables	854	745	816	863	918
Other Current Assets	57	54	53	57	60
Property, Plant & Equipment	66	80	90	99	110
Other Non-Current Assets	2,538	2,489	2,429	2,374	2,319
Total Assets	3,586	3,545	3,585	3,405	3,452
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	442	396	415	437	463
Long-Term Debt	1,067	1,037	1,026	690	541
Other Non-Current Liabilities	176	220	220	220	220
Total Liabilities	1,684	1,653	1,660	1,346	1,224
Total Equity	1,901	1,892	1,925	2,059	2,228
Total Equity & Liabilities	3,586	3,545	3,585	3,405	3,452

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Business Services

Company Description

ASGN Inc. is a leading provider of temporary staffing and professional services in the technology, digital, and creative fields across commercial and government sectors.

Operating through its Commercial Staffing and Federal Government segments, ASGN generated \$4.6bn of revenue in 2022.

Investment Rationale

Client demand for ASGN's staffing services has proved to be more discretionary than we anticipated with sales growth deteriorating significantly from an already tough start to the year. We worry results will continue to disappoint through year-end.

Stock Data

Average Daily Volume 228,681

Quarterly Earnings Estimates

	2023	2024
Q1	0.99A	0.87E
Q2	1.22A	1.15E
Q3	1.23A	1.31E
Q4	1.06A	1.12E

Price objective basis & risk

ASGN Inc. (ASGN)

Our \$70 price objective is based on 11x our 2025E EPS (14x when subtracting out amortization of intangibles from adjusted EPS). This is below the company's 12-month average reflecting decelerating growth against tougher comparisons and macro headwinds.

Downside risks to our PO are: 1) a slower US economy driven by macro headwinds, 2) risks related to the active M&A strategy, 3) a highly competitive and fragmented industry. Upside risks to our PO are: 1) potentially accretive M&A, 2) an uptick in US IT budgets, and 3) accelerated share repurchase activity.

Analyst Certification

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US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alight Inc	ALIT	ALIT US	Heather Balsky
	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Dun & Bradstreet Holdings, Inc.	DNB	DNB US	Heather Balsky
	Equifax	EFX	EFX US	Heather Balsky
	Gartner	IT	IT US	Heather Balsky
	Moody's Corp.	MCO	MCO US	Heather Balsky
	S&P Global	SPGI	SPGI US	Heather Balsky
	Strategic Education	STRA	STRA US	Heather Balsky
	Thomson Reuters	YTRI	TRI CN	Heather Balsky
	Thomson Reuters	TRI	TRI US	Heather Balsky
NEUTRAL				
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
UNDERPERFORM				
	ASGN Inc.	ASGN	ASGN US	Heather Balsky
	Clarivate PLC	CLVT	CLVT US	Heather Balsky
	ManpowerGroup	MAN	MAN US	Heather Balsky
	MSCI Inc	MSCI	MSCI US	Heather Balsky
	Robert Half	RHI	RHI US	Heather Balsky
	TransUnion	TRU	TRU US	Heather Balsky



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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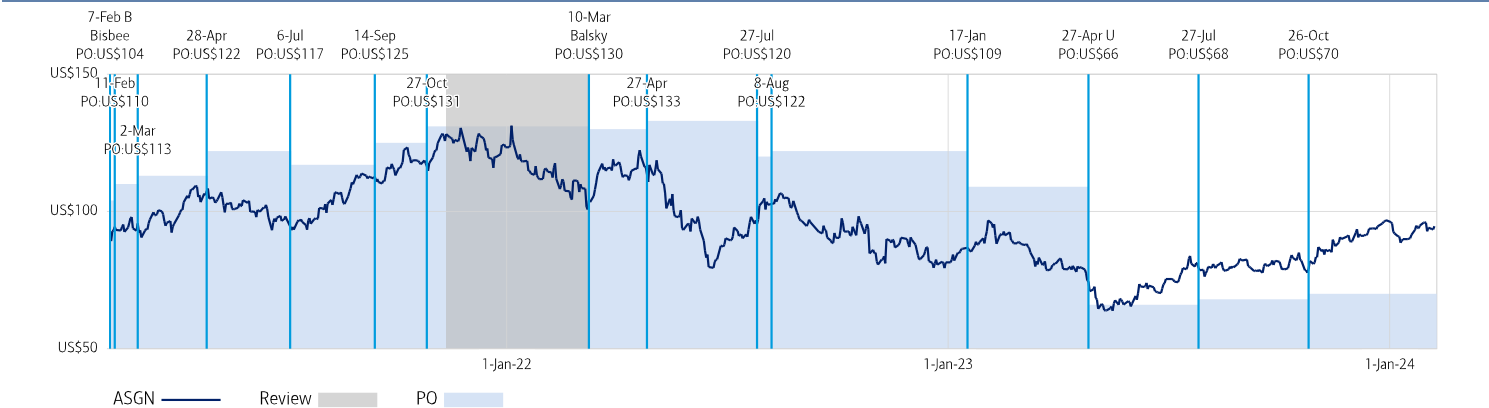
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ASGN Inc. (ASGN) Price Chart



ASGN — Review — PO

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Business Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	26	55.32%	Buy	17	65.38%
Hold	8	17.02%	Hold	3	37.50%
Sell	13	27.66%	Sell	11	84.62%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
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^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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