SIENAcollege

BJORKLUND FUND

November 8th, 2017

Company Name: ASGN

Kevin Boland

Sector: Industrials
Industry: Professional and Commercial Services
Current Price: $61.04
Target Price: $73.16

Company Description: On Assignment is a leading global provider of highly skilled professionals in the growing technology, life sciences, digital and creative sectors. They match people they know into positions they understand, for contract, contract-to-hire and direct hire assignments. On Assignment provides services through two segments, the Apex Segment and the Oxford Segment.

BUY

Current Price:	$61.04
Target Price:	$73.16
Market Cap:	3.2B
ROIC:	14.2%
WACC:	8.0%
EBITDA Margin:	10.5%
D/E:	.66

Catalysts:

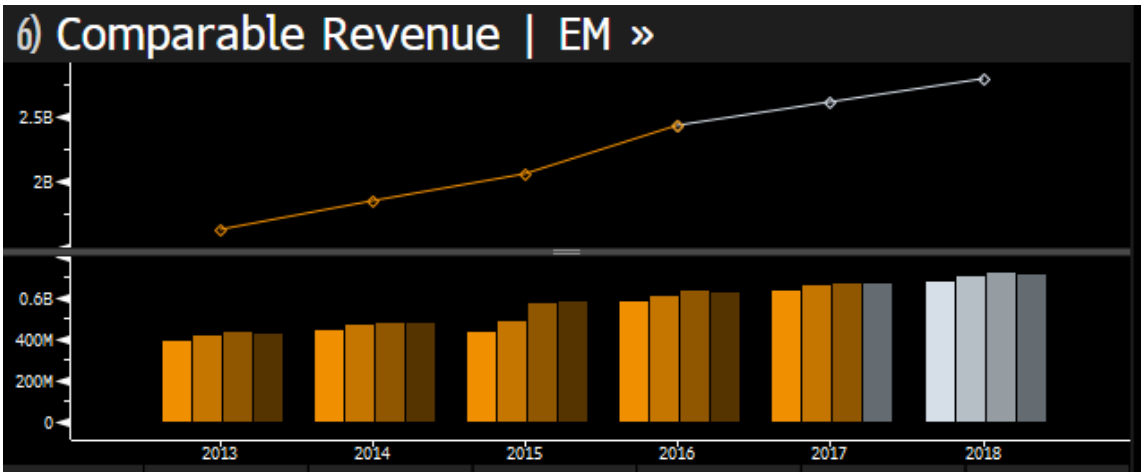
- **Short Term (within the year):** Q4 Earnings Report and continued growth of business segments
- **Mid Term (1-2 years):** Government Regulation promoting domestic employment and lower taxes
- **Long Term (3+):** Experienced management team with a focused capital allocation method to outperform competition.

Thesis:

On Assignment has established themselves as a leader in global staffing. Their strong and diversified segments appeal to a wide range of clients, mainly within the United States. With massive Government reformation in employment and taxes looming, On Assignment is set up to benefit tremendously in the near future. Their experienced management team has increased share price vastly over the last few years, through acquisitions and EBITDA growth. They know how to best use their capital for long-term growth because of their many years of experience in this industry. We can expect to see On Assignments stock price grow relative to the industrials index, with very little downside.

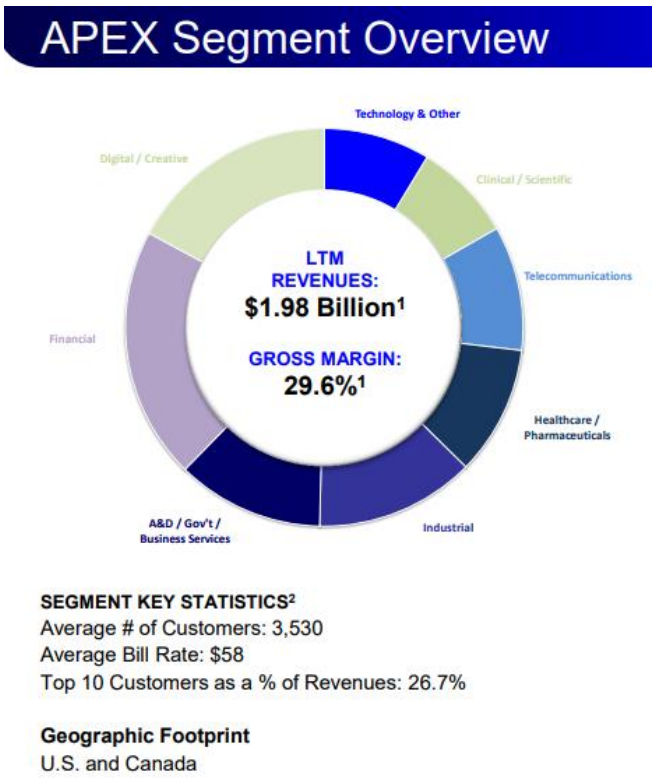
Q3 2017 Earnings Performance:

On Assignment's Q3 2017 earnings call reported revenues and gross margin within the range of past financial estimates, as well as Adjusted EBITDA Margin and EPS that exceeded the high-end of these estimates. Revenues increased by 6% year-over year to $667.1 million. Adjusted EBITDA increased to $83.4 million (12.5% of revenue) from Q3 2016 results of $77.8 million (12.4% of revenue). Net Income also increased by 17% year-over-year to $34.9 million. While revenues are not growing exceptionally fast, management has found methods to reduce cost and still increase profits. The company has also repaid $286.5 million from the acquisition of Creative Circle, lowering their leverage ratio to 2.08 times. On Assignment projects this number to continue to decrease to 1.91 times by the end of Q4 2017. Also, the $150 million share repurchase remains on schedule as the company purchased nearly 1 million shares in Q3 2017. Looking ahead to Q4 2017, On Assignment estimates revenues to be between $658 million to $668 million. Adjusted EBITDA is estimated to be between $77.5 million to $80.5 million (approximately 12% of revenue). Finally, Net Income is estimated to be between $30.9 million to $32.7 million. These figures could lead to a year-over-year growth rate of 6.3% to 7.9%.

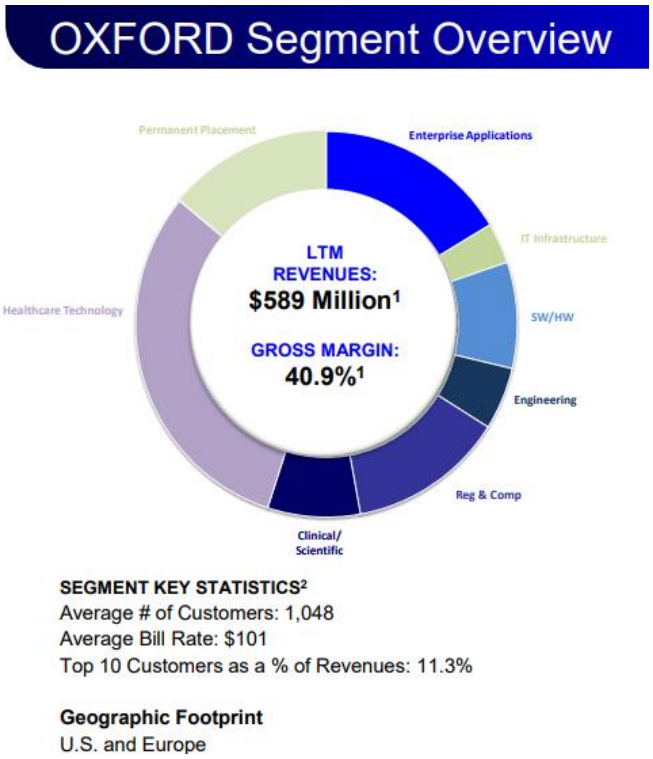


Segment Breakdown:

To further get an understanding of On Assignment, a segment breakdown and analysis of growth is necessary. The Apex Segment is the larger of the two segments, contributing to 77.1% of revenue LTM and a 10.6% EBITDA Margin. Business in the Apex Segment serves large markets with a local talent pool, where clients value speed, reliability and price. This segment is comprised of Apex Systems, Apex Life Sciences and Creative Circle. Apex Systems, a 2012 acquisition, provides IT staffing and consulting services for clients across the U.S. and Canada. Apex Life Sciences provides scientific, engineering, clinical research staffing and consultant services for clients across the U.S. and Canada. Creative Circle, a 2015 acquisition, provides creative, marketing, advertising and digital talent to a companies in North America. In Q3 2017, revenues in the Apex Segment were up 9.3% year-over-year to $517.5 million. Apex Systems, which accounts for 74.8% of the segments revenue, reported double-digit revenue growth again. This can be attributed to continued high growth in four of the seven industries they service. Creative Circle grew revenues in the mid-single digit levels, despite management's belief that they did not meet their expectations. This miss in revenues can be due to a volatility in job order flow for the quarter and the fact that this acquisition is still in the early adoption phase for On Assignment. Life Sciences maintained 3.8% growth with the acquisition of StratAcuity. Overall, the Apex Segment is doing well by management's beliefs and continues to grow in every area and industry. In the near future, this segment will further benefit from the recovery from hurricanes and changes in billing.



The smaller, Oxford segment contributed to 22.9% of revenue LTM and a 8.5% EBITDA Margin. Business in the Oxford Segment serves higher-end markets that require specialized skills from a national recruiting effort. This segment is comprised of Oxford Global Resource (Oxford Core), CyberCoders and Life Sciences Europe. Oxford Core specializes in recruiting and delivering experienced IT, engineering and regulatory and compliance consultants to clients for temporary assignments. CyberCoders, a 2013 acquisition, specializes in recruiting professionals for permanent placements in engineering, technology, sales, executive, financial, accounting, scientific, legal and operations positions. Life Sciences Europe provides locally based contract and permanent professionals to clients with research and development projects different scientific industries. In Q3 2017, the Oxford Segment revenues were down 4% year-over-year to $149.6 million. Oxford Core



revenues, which accounts for 74.8% of the segments revenue, were down mid-single digits year-over-year, although still beating managements forecast for the quarter. This decline in revenue is due to the successful completion of two large projects from Q4 2016. Despite these projects, Oxford Core's revenues are growing and will soon experience the effects of these projects to increase growth rates and profitability. On the other hand, CyberCoders and Life Sciences each experienced positive single-digit growth for the quarter. Overall, the Oxford Segment is performing on track with management's strategy to improve EBITDA margin. Throughout the end of the year, management is focusing on re-positioning their go-to-marketing strategy and installing a more progressive sales strategy. These activities will be finished in the coming weeks and will start to show physical topline growth in mid-2018.

Industry Outlook:

On Assignment is, by definition, an industrial company. This industry has performed well throughout the year as you can see by the index from the first page. This also shows that On Assignment is following the macro trends throughout the industry and increasing with this index. Beyond this general industry classification, On Assignment is a staffing company that provides professional and commercial services. This means that the company's success relies heavily on factors regarding employment, especially in the U.S. where most of their business is. The U.S. Bureau of Labor Statistics estimates U.S. employment to grow by 9.8 million jobs, or 6.5 %, by 2024. Even with an aging workforce and decrease in labor force participation, the job market continues to grow. The Staffing Industry Analysts also expect to see a near $6 billion increase in industry revenues to $144.9 billion by the end of 2017. This includes an increase of 4% in the staffing industry largest segment, temporary staffing, and a 6% increase in permanent placement. On Assignment has beat these estimates in some of their largest business segments. In IT, the company has beat the Staffing Industry's annual growth rate for 15 consecutive quarters. This shows the strength of the company's position in the industry and their ability to capitalize on emerging market and workforce trends.

September 2017).

Government Regulation:

President Trump and the U.S. Government have placed a tremendous focus on growing the economy. So far during his presidency the stock market has posted all time-highs and shown no signs of slowing down. Two of Trump's target areas to continue growth are employment and taxes. Specifically in employment, Trump wants U.S. companies to hire domestically rather than overseas. He wants to limit the number of work visas allowed and inspect companies with 15% of their workforce on visas, especially offshore IT service companies. With these government pressures there will be an increase in demand for domestic labor. On Assignment's majority of revenues occur domestically using U.S. citizen employees. Given the reduction of foreign workers, U.S. employees will be paid more, meaning On Assignment will have increased bill rates and profits. Trump also plans on creating major corporate tax reform in the future. His proposal is to reduce federal corporate income tax rate from 35% to 15%-20%. This would have a tremendous impact on On assignment's Net Income as they currently pay a high fee in U.S. taxes. The proposal also calls for a mandatory 10% repatriation tax on accumulated foreign earnings. Since On Assignment has few of its revenues in foreign markets this would not have a great impact on their business. In fact, it may move more business back domestically which would call for a need in staffing, turning a negative into a positive for On Assignment. Although these are all proposals at the moment requiring votes from Congress, economic reform is bound to happen. Trump and Republicans have three years left to fulfill one of their top campaign promises. With these reformation, On Assignment will see a great increase in demand as well as major savings in taxes.

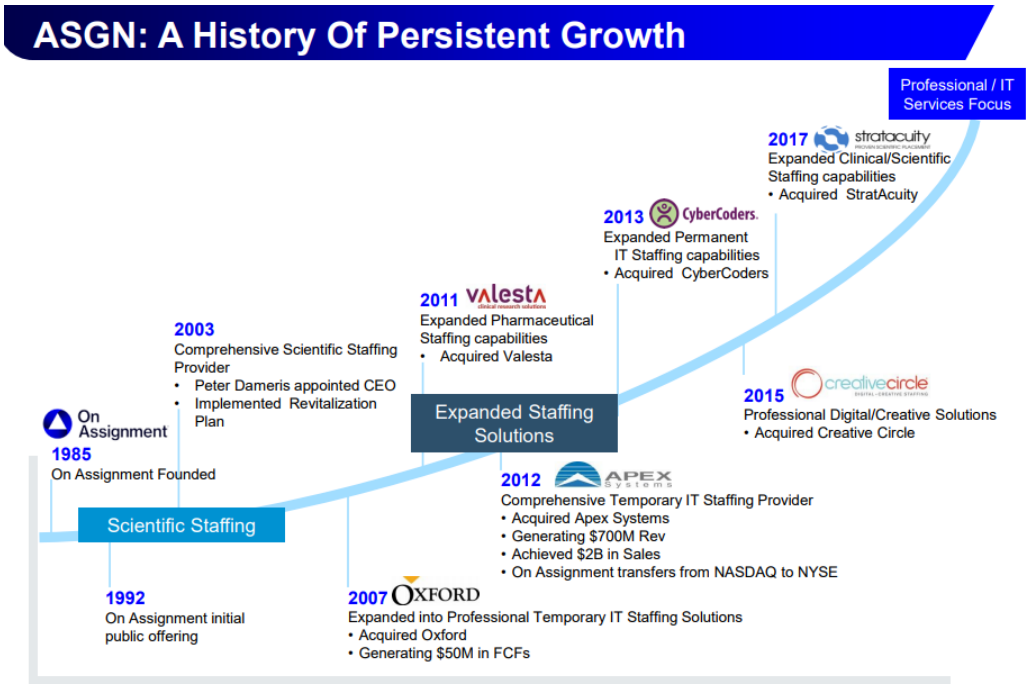
Management:

Experienced Management Team
A Proven Track Record to Execute On Assignment's Growth Strategy

Peter Dameris	CEO	19 years in industry	13 years with ASGN
Ted Hanson	President, On Assignment	17 years in industry	5 years with ASGN
Rand Blazer	President, Apex Systems	32 years in industry	5 years with ASGN
Edward Pierce	Executive VP & CFO	16 years CFO experience	10 years with ASGN
James Brill	Senior VP, CAO & Treasurer	24 years CFO experience	10 years with ASGN

As seen in the image above, On Assignment has a very experienced management team. The whole management team has been together for 5 years now and they all have minimum of 15 years of experience in the industry. This chemistry of the team and knowledge of the industry is crucial to maintaining growth for the company. This can be proven by looking at the stock performance before and after 2012 when the team

was completed. Before 2012, On Assignment's stock price increased 450% over 20 years. After 2012, On Assignment's stock price has also increased by 450%, but over just 5 years. It is also worth noting that before 2012 the stock price traded in the single digits with no consistent pattern in growth. After 2012, the stock broke out of single digits and has still maintained a consistent growth trend year to year. Part of this share price increase has been due to management's acquisition strategy. They have acquired 6 different companies since 2007. On Assignment's largest revenue portion of the Apex Segment, Apex Systems, was an acquisition from only 5 years ago. They plan these acquisitions based on emerging trends in the industry that can prove to be the most lucrative. Right now Professional and IT Services are management's focus to foster growth in new areas. It is no surprise that these decisions of the management team have translated to an increase in stock price. While it is possible that this trend of growth slows down in the future, a management team like this provides a level of comfort and security for shareholders. They have knowledge to pick the right future acquisitions that will prove to be lucrative for On Assignment



Competition:

	Name	Sales Growth (%)	EBITDA Margin	Operating Income Margin	Net Income Growth (%)	Net Profit Margin	Capex/Sales
	Median	3.92%	5.45%	4.90%	1.67%	3.06%	0.64%
100)	ON ASSIGNMENT INC	7.12%	10.67%	8.35%	19.67%	4.70%	1.11%
101)	ROBERT HALF INTL INC	-1.97%	11.14%	9.87%	-10.51%	6.20%	1.58%
102)	RANDSTAD HOLDING NV	13.23%	4.90%	3.92%	-3.27%	2.90%	0.30%
103)	MANPOWERGROUP INC	3.57%	4.22%	3.80%	3.24%	2.28%	0.29%
104)	KFORCE INC	1.51%	5.52%	4.89%	0.50%	2.71%	0.94%
105)	KELLY SERVICES INC -A	-3.27%	1.92%	1.50%	2.84%	1.45%	0.24%
106)	ADECCO GROUP AG-REG	4.27%	5.37%	4.91%	0.25%	3.21%	0.33%
107)	ACCENTURE PLC-CL A	5.66%	16.17%	13.99%	11.58%	10.22%	1.40%

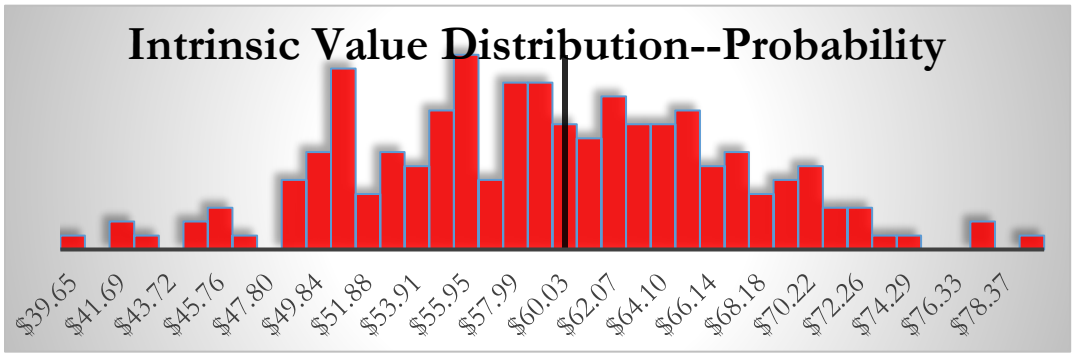
On Assignment competes with a wide range of companies that offer similar services to theirs. Each of their business segments has unique competitors on national and international levels. These categories listed above represent the company's dominance in the industry over the past year. Particularly, Sales growth and EBITDA Margin are close to double that of their competitors. These key metrics give a basis of comparison for On Assignment showing that their operations this year have been quite successful. Although

a 1.11% CAPEX/Sales ratio seems low, it is not for staffing companies. They are one of the top capital expenditure spenders in their industry which shows their forward thinking strategy to invest in future projects. On Assignment is able to do so well against their competitors because of their industry awareness and ability to meet their client's needs. Some of the main competitive factors for staffing companies are speed, quality of candidates and retention of clients. On Assignments 155 branch offices give them the ability to deploy clients in a vast range of locations, depending on the client. They focus on the appropriateness of the employee assigned to the client to ensure the best match. This creates relationships with their clients that give On Assignment a competitive advantage over the rest of the staffing industry.

Upside:

Assumptions: 2.5% long-term growth, 84.5% long-term cost/revenue, 1 year target price return of 38.2%

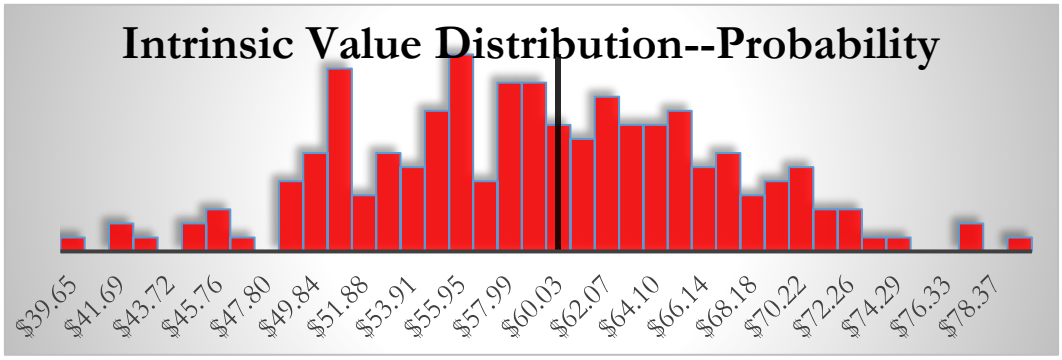
In this bullish case, On Assignment will beat the market on a long-term basis. This can be achieved if the staffing industry has more future demand due to the cost savings and quality of employees produced. The U.S. Government's tax and immigration reform would also help. With the exit of many baby boomers comes the continued replacement with millennials. This generation will create a larger and expanded job market that bodes well for On Assignment. The company will also continue to acquire other companies and possibly expand internationally.



Downside:

Assumptions: 1.5% long-term growth, 89% long-term cost/revenue, 1 year target price return of -6.33%

In this bearish case, On Assignment will not beat the market on a long-term basis. The staffing industry may take time for widespread adoption from companies. It is also possible that Trump is not able to pass his tax reformation bill. Any type of unexpected event, such as management breaking up or diverting from past successful strategy, may also have a negative impact on the stock price.



Conclusion:

On Assignment has a relatively low downside over the next year. I expect the stock price to continue to grow, based on the trend of their segments and the industries they are involved in. With the imminent help of Government reformation, the company will be in high demand over the next few years. Management's experience and ability to allocate capital in the proper way reaffirms my belief that we should buy this stock.

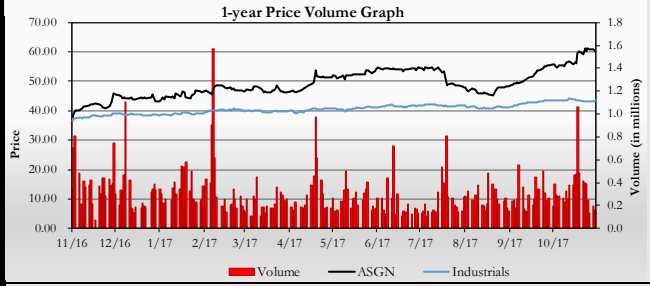
On Assignment, Inc. (ASGN)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Kevin Boland	Current Price:	$61.04	Intrinsic Value	$64.00
11/10/2017	Divident Yield:	0.0%	Target Price	$73.16

Target 1 year Return: 19.86%
Probability of Price Increase: 96.5%



Description

On Assignment, Inc. provides professionals for contract, contract-to-hire, and direct hire assignments in the United States, Europe, and Canada.

General Information

Sector	Industrials
Industry	Professional Services
Last Guidance	November 3, 2015
Next earnings date	February 14, 2018
Estimated Country Risk Premium	7.01%
Effective Tax rate	24%
Effective Operating Tax rate	24%

Market Data

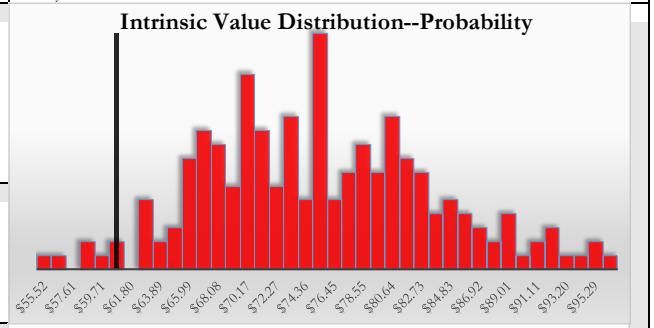
Market Capitalization	$3,174.99
Daily volume (mil)	0.30
Shares outstanding (mil)	52.01
Diluted shares outstanding (mil)	53.40
% shares held by institutions	93%
% shares held by investments Managers	85%
% shares held by hedge funds	3%
% shares held by insiders	4.92%
Short interest	1.27%
Days to cover short interest	2.06
52 week high	$61.89
52-week low	$37.00
Volatility	33.35%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
9/30/2016	0.98%	-9.80%
12/31/2016	1.15%	-21.11%
3/31/2017	1.12%	-8.34%
6/30/2017	-0.43%	-4.07%
9/30/2017	0.31%	-4.43%
Mean	0.62%	-9.55%
Standard error	0.3%	3.1%

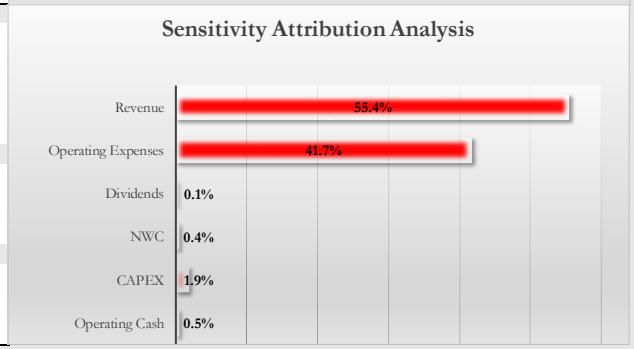
Peers

Robert Half International Inc.
TrueBlue, Inc.
Korn/Ferry International
Kforce Inc.
ManpowerGroup Inc.
Insperity, Inc.
Kelly Services, Inc.
Heidrick & Struggles International, Inc.

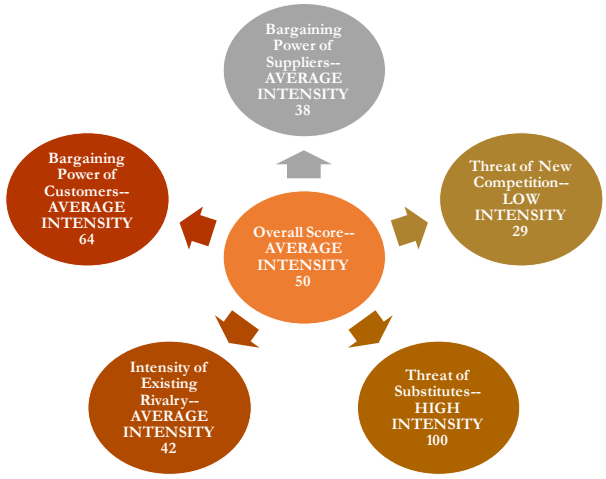


Management	Position	Total compensations growth	Total return to shareholders
Dameris, Peter	Chief Executive Officer & Di	23.06% per annum over 5y	10.98% per annum over 5y
Hanson, Theodore	President	20.94% per annum over 3y	25.01% per annum over 3y
Pierce, Edward	Executive VP and CFO	85.28% per annum over 5y	10.98% per annum over 5y
Blazer, Randolph	President of Apex Systems	41.96% per annum over 3y	25.01% per annum over 3y
Payne, Michael	Chief Information Officer &	N/M	N/M
Brill, James	Senior VP, Chief Administrat	-100% per annum over 2y	13.46% per annum over 2y

Profitability	ASGN (LTM)	ASGN (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	8.1%	9.22%	-5.48%
Operating Margin	6%	5.63%	3.32%
Revenue/Capital (GAAP)	1.29	1.64	-1.65
ROE (GAAP)	14.3%	13.7%	25.7%
Net margin	5.0%	5.6%	3.1%
Revenue/Book Value (GAAP)	2.89	2.43	8.27
Invested Funds	**ASGN (LTM)**	**ASGN (5 years historical average)**	**Peers' Median (LTM)**
Cash/Capital	1.4%	2.8%	29.6%
NWC/Capital	15.4%	11.6%	4.0%
Operating Assets/Capital	39.0%	39.8%	44.9%
Goodwill/Capital	44.2%	45.8%	21.4%
Capital Structure	**ASGN (LTM)**	**ASGN (5 years historical average)**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.35	0.37	0.40
Cost of Existing Debt	4.4%	6.1%	4.8%
CGFS Rating (F-score, Z-score, and default Probability)	AA	BBB	BBB
WACC	9.4%	10.4%	9.8%



Porter's 5 forces (scores are out of 100)



Valuation

Period	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	7%	8.9%	1.58
9/30/2018	7%	1.3%	1.65
9/30/2019	5%	1.8%	1.65
9/30/2020	5%	2.2%	1.68
9/30/2021	5%	2.7%	1.69
9/30/2022	4%	10.4%	1.67
9/30/2023	4%	10.5%	1.47
9/30/2024	3%	10.7%	1.32
9/30/2025	3%	10.9%	1.19
9/30/2026	3%	11.1%	1.08
9/30/2027	2%	11.3%	0.99
Continuing Period	2%	11.4%	0.91

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	14.1%	9.4%	$64.83
9/30/2018	2.1%	10.0%	$74.24
9/30/2019	2.9%	10.0%	$82.29
9/30/2020	3.6%	10.0%	$90.61
9/30/2021	4.5%	10.0%	$99.15
9/30/2022	17.4%	10.0%	$107.92
9/30/2023	15.5%	10.1%	$116.92
9/30/2024	14.1%	10.1%	$126.13
9/30/2025	13.0%	10.1%	$135.54
9/30/2026	12.0%	10.2%	$145.14
9/30/2027	11.2%	10.2%	$154.90
Continuing Period	10.4%	10.2%	