ManpowerGroup
Earnings Results Transcript
Q2 2021 CONFERENCE CALL

SLIDE 1 - Jonas Prising

Welcome to the second quarter conference call for 2021. Our Chief Financial Officer, Jack McGinnis, is on the call with me today. For your convenience, we have included our prepared remarks within the Investor Relations section of our website at manpowergroup.com. I will start by going through some of the highlights of the quarter, then Jack will go through the second quarter results and guidance for the third quarter. I will then share some concluding thoughts before we start our Q&A session. But before we proceed, Jack will now cover the Safe Harbor language.

SLIDE 2 – Jack McGinnis

Good morning, everyone. This conference call includes forward-looking statements, including statements regarding the impact of the COVID-19 pandemic, which are subject to known and unknown risks and uncertainties. These statements are based on management's current expectations or beliefs. Actual results might differ materially from those projected in the forward-looking statements. We assume no obligation to update or revise any forward-looking statements.

Slide 2 of our earnings release presentation further identifies forward-looking statements made in this call and factors that may cause our actual results to differ materially and information regarding reconciliation of non-GAAP measures.

SLIDE 3 – Jonas Prising

Thanks Jack.

Halfway through 2021, I am increasingly optimistic about the strength of the global recovery. As vaccine rollouts gain momentum and lockdown restrictions ease, we are seeing dramatic increases in hiring optimism. The pace of recovery is strong, with hiring intent picking up much faster than after the previous economic downturn and although the recent infection increases are concerning, we do not believe they will materially impact the positive recovery trajectory.

I spent a considerable amount of time during the second quarter in Europe with our market leaders, teams, and clients. This included time with our French team at Viva Tech, one of the world's largest technology conferences in Paris - which I will talk about later as part of our Innovation update. Together with other global leaders I also spent time with President Macron and his government at the Choose France event. I believe that the future for France looks bright as the government continues on its path to make France more competitive and our business is very well positioned to benefit as their economy grows.

It is clear from my discussions with clients that demand is coming back very strongly for our services across all of our brands. This is evidenced in temporary and permanent placement activity as well as demand for workforce solutions. Companies increasingly need our help in finding and reskilling talent to enable them to leverage the fast-improving economic recovery and accelerate their digital transformation to emerge stronger post pandemic.

Turning to our financial results, in the second quarter revenue was $5.3 billion, up 31% year over year in constant currency. We grew revenues significantly in our key markets and this resulted in better-than-expected financial performance.

Our operating profit for the quarter was $170 million. Operating profit was up significantly as we anniversary the depth of the pandemic's financial impact. Operating profit margin was 3.2%, and, after excluding special charges in the prior year, operating profit margin increased 260 basis points. Earnings per diluted share was $2.02.

As we welcome a stronger economic recovery than anticipated, we also see our clients experiencing supply constraints, with much tighter labor markets in many countries and competition for talent heating up. Our most recent Talent Shortage survey of 42,000 employers in 43 countries found that 69% of employers globally – a 15-year high – are reporting difficulties hiring skilled workers across many industries

Although vaccinations are more widespread, workers are still dealing with issues created by the pandemic, such as health care and childcare concerns. Unemployment benefits and related programs are also having a lingering effect on worker supply. We expect the pandemic related talent shortages to ease over the coming quarters but over the medium to long term, the impact of digitization and other structural labor market changes are here to stay. This means hiring of skilled talent and supporting people to reskill and upskill for growth roles will be a driver of demand into the foreseeable future.

It is a workers' market right now and, as a result, we are also beginning to see employers respond to what workers want – wage increases in places, more flexibility, skills development, and a clear commitment to ESG, especially clarity around an organization's social and climate impact.

I would now like to turn it over to Jack to take you through the financials and country performance details.

SLIDE 3 – Jack McGinnis

Thanks, Jonas.

Revenues in the second quarter came in at the high end of our constant currency guidance range. Gross profit margin came in well above our guidance range. Operating profit was $170 million representing a significant increase from the prior year period which was heavily impacted by the pandemic. Operating profit margin was 3.2%, which was 80 basis points above the mid-point of our guidance.

Breaking our revenue trend down into a bit more detail, after adjusting for the positive impact of currency of about 10%, our constant currency revenue increased 31%. As the impact of net dispositions and slightly more billing days was very minor, the organic days-adjusted revenue increase was also 31%. Comparing to pre-pandemic revenues, our second quarter revenues were below 2019 levels by 4% on an organic days-adjusted constant currency basis representing a 1.5% improvement from the first quarter trend on this same basis.

SLIDE 4 – Jack McGinnis

Turning to the EPS bridge on slide 4, earnings per share was $2.02 which significantly exceeded our guidance range. Walking from our guidance mid-point, our results included improved operational performance of 55 cents, slightly higher than expected foreign currency exchange rates which had a positive impact of 3 cents, a slightly better than expected effective tax rate that added 2 cents, and favorable other expenses which added 2 cents.

SLIDE 5 – Jack McGinnis

Looking at our gross profit margin in detail, our gross margin came in at 16.3%. Staffing margin contributed a 60-basis point increase which included 20 basis points related to direct cost accrual adjustments in France, representing a 40 basis points underlying improvement in staffing margin. Permanent recruitment contributed a 50-basis point GP margin improvement as hiring activity was strong across our largest markets. Our Experis managed services business in Europe contributed a 10-basis point margin improvement. These increases were partially offset by other business mix factors primarily involving a lower mix of Right Management career transition business.

SLIDE 6 – Jack McGinnis

Next, let's review our gross profit by business line. During the quarter, the Manpower brand comprised 64% of gross profit, our Experis professional business comprised 21%, and Talent Solutions comprised 15%.

During the quarter, our **Manpower** brand reported an organic constant currency gross profit year over year growth of 51%. Our Manpower business experienced the biggest decline a year ago and, as a result, experienced the biggest increase this period in the recovery. Compared to pre-pandemic levels, this represented a decrease of 4% from the second quarter of 2019 on an organic constant currency basis.

Gross profit in our **Experis** brand increased 23% year over year during the quarter on an organic constant currency basis. This represented a decrease of 1% from the second quarter of 2019 on an organic constant currency basis.

Talent Solutions includes our global market leading RPO, MSP and Right Management offerings. Organic gross profit increased 27% in constant currency year over year. This represented an increase of 12% from the second quarter of 2019 on an organic constant currency basis. Our RPO business posted double digit GP growth during the quarter on significant growth in hiring activity. Our MSP business, which has performed well for several quarters, continued to experience double digit growth in gross profit in the quarter. Our Right Management business continues to see a run-off in outplacement activity as the recovery strengthens and experienced a reduction in gross profit of about 9% year over year.

SLIDE 7 – Jack McGinnis

Our SG&A expense in the quarter was $690 million and represented a 10% increase on a reported basis from the prior year. Excluding goodwill and other impairment charges in the prior year, SG&A was 17% higher on a constant currency basis. This compares to an increase in gross profit of 40% in constant currency and reflects balanced investment allowing for strong gross profit flowthrough during the quarter. Operational costs increased by $96 million and net dispositions represented a $1 million reduction. Currency changes reflected an increase of $42 million. SG&A expenses as a percentage of revenue represented 13.1% in the second quarter representing ongoing improvement in our efficiency as revenue recovers.

SLIDE 8 – Jack McGinnis

The **Americas** segment comprised 20% of consolidated revenue. Revenue in the quarter was $1 billion, an increase of 23% in constant currency. OUP was $56 million. Excluding impairment costs in the prior year, OUP increased 116% in constant currency and OUP margin increased 230 basis points to 5.4%.

SLIDE 9 – Jack McGinnis

The **U.S.** is the largest country in the Americas segment, comprising 60% of segment revenues. Revenue in the U.S. was $629 million, representing a 22% increase compared to the prior year. Adjusting for franchise acquisitions and days, this represented a 21% increase.

Excluding impairment charges in the prior year, OUP for our U.S. business increased 149% year over year to $38 million in the quarter. OUP margin was 6.0%.

Within the **U.S.,** the Manpower brand comprised 35% of gross profit during the quarter. Revenue for the Manpower brand in the U.S. increased 36% during the quarter. While the U.S. Manpower business continues to recover, we have noted softness in candidate supply during the second quarter and expect this to continue during the summer months.

The Experis brand in the U.S. comprised 32% of gross profit in the quarter. Within Experis in the U.S., IT skills comprise approximately 80% of revenues. Experis U.S. revenues grew 5% during the quarter. We are encouraged by the current trends in our U.S. Experis business and anticipate continued improvement into the third quarter.

Talent Solutions in the U.S. contributed 33% of gross profit and experienced revenue growth of 14% in the quarter. This was driven by RPO which experienced dramatic revenue growth as hiring programs continued to strengthen. The U.S. MSP business continued to perform well and experienced double digit revenue growth in the quarter. Career Transition activity continued to run-off as the economy strengthens which contributed to revenue reductions in Right Management in the U.S.

In the third quarter we expect ongoing underlying improvement and revenue growth for the U.S. in the range of 11% to 15% year over year. Comparing estimated third quarter revenues to pre-crisis levels in constant currency, this represents a 2% decline compared to 2019 levels in the third quarter using the midpoint of our guidance.

Our **Mexico** operation experienced revenue growth of 6% in constant currency in the quarter. On April 23rd, the Mexican government passed labor legislation that will prohibit certain types of temporary staffing not considered specialized services beginning on July 23rd. As such, companies operating in Mexico will be prohibited from using temporary staffing for functions that are already deemed to be in-house core competencies of their workforce. We have been working with our clients as the market absorbs this legislation and anticipate that we will have a reduction in revenues in our Mexico business beginning in the third quarter as clients navigate through the legislation and shift their workforce strategies accordingly. Although this will result in revenue reductions over the next few quarters, we believe the mix shift towards more specialized staffing will improve the margin profile of our Mexican business. We also believe there may be additional revenue opportunities over time as clients adjust their workforce strategies. Although it is difficult to forecast based on how quickly the legislation is being enacted, we are currently estimating a revenue decrease for the Mexican business in the third quarter in the range of -28% to -32% in constant currency. Mexico represented 2.8% of our 2020 revenues.

Revenue in **Canada** increased 22% in days-adjusted constant currency during the quarter.

Revenue in the **Other Countries within Americas** increased 40% in constant currency. This was driven by significant constant currency revenue growth in Argentina, Colombia, Peru and Chile.

SLIDE 10 – Jack McGinnis

Southern Europe revenue comprised 46% of consolidated revenue in the quarter. Revenue in Southern Europe came in at $2.4 billion, growing 51% in constant currency. This reflects ongoing improvement driven by France and Italy. OUP equaled $115 million and OUP margin was 4.8%.

SLIDE 11 – Jack McGinnis

France revenue comprised 56% of the Southern Europe segment in the quarter and increased 67% in days-adjusted constant currency. Compared to the same period in 2019, France revenues were down 12%. Although restrictions had an impact on the rate of revenue improvement during the quarter the French business continued to perform well in a challenging environment, and we expect ongoing improvement now that the majority of the restrictions have been lifted. OUP was $66 million in the quarter and OUP margin was 4.9%. As previously referenced, direct cost accrual adjustments, representing approximately $10 million, benefited France's results.

As we begin the third quarter, we are estimating a year over year constant currency increase in revenues for France in the range of 12% to 16%. Comparing estimated third quarter revenues to pre-crisis levels in constant currency, this represents a 5% decline compared to 2019 levels in the third quarter using the midpoint of our guidance.

Revenue in **Italy** equaled $469 million in the quarter reflecting an increase of 57% in days-adjusted constant currency. Through the second quarter, revenues in Italy continue to exceed 2019 levels. OUP equaled $32 million and OUP margin was 6.8%. We estimate that Italy will continue to perform very well in the third quarter with year over year constant currency revenue growth in the range of 20% to 24%.

Revenue in **Spain** increased 12% in days-adjusted constant currency from the prior year and revenue in **Switzerland** increased 33% in days-adjusted constant currency.

SLIDE 12 – Jack McGinnis

Our **Northern Europe** segment comprised 22% of consolidated revenue in the quarter. Revenue increased 23% in constant currency to $1.2 billion driven by all major markets. OUP represented $18 million and OUP margin was 1.5%.

SLIDE 13 – Jack McGinnis

Our largest market in the Northern Europe segment is the **U.K.**, which represented 37% of segment revenues in the quarter. During the quarter, U.K. revenues grew 30% in days-adjusted constant currency which included significant new business. The U.K. continued to perform above 2019 levels in the second quarter. We expect continued strong growth in the 34% to 38% constant currency range year over year in the third quarter.

In **Germany,** revenues increased 9% in days-adjusted constant currency in the second quarter. Although Germany continues to be a difficult market for our industry, we expect to see ongoing revenue improvement in Germany in the third quarter.

In the **Nordics**, revenues grew 17% in days-adjusted constant currency.

Revenue in the **Netherlands** increased 9% in days-adjusted constant currency.

Belgium experienced days-adjusted revenue growth of 24% in constant currency during the quarter.

Revenue in **Other Markets** in Northern Europe grew 41% in constant currency in the quarter. This was driven by strong revenue growth in Poland, Russia, and Ireland.

SLIDE 14 – Jack McGinnis

The **Asia Pacific Middle East** segment comprises 12% of total company revenue. In the quarter, revenue grew 6% in constant currency to $620 million. OUP was $22 million and OUP margin was 3.6%.

SLIDE 15 – Jack McGinnis

Revenue in **Japan** grew 10% in days-adjusted constant currency which represents an improvement from the 6% growth rate in the first quarter. Our Japan business continues to lead the market in revenue growth, and we expect ongoing mid to high single digit revenue growth in the third quarter.

Revenues in **Australia** were down 11% in days-adjusted constant currency.

Revenue in **Other Markets** in Asia Pacific Middle East grew 9% in constant currency.

SLIDE 16 – Jack McGinnis

I'll now turn to cash flow and balance sheet. During the first six months of the year, free cash flow equaled $171 million compared to $577 million in the prior year quarter reflecting significant accounts receivable declines in the prior year period.

At quarter end, days sales outstanding decreased year over year by almost 2 days to 56 days. Capital expenditures represented $12 million during the quarter.

During the second quarter we purchased 432 thousand shares of stock for $50 million. Our year-to-date purchases stand at 1.5 million shares of stock for $150 million. As of June 30th, we have 1.9 million shares remaining for repurchase under the 6 million share program approved in August of 2019.

SLIDE 17 – Jack McGinnis

Our balance sheet was strong at quarter-end with cash of $1.46 billion and total debt of $1.09 billion, resulting in a net cash position of $368 million. Our debt ratios at quarter-end reflect total gross debt to trailing twelve months Adjusted EBITDA of 1.79 and total debt to total capitalization at 31%.

SLIDE 18 – Jack McGinnis

Our debt and credit facilities did not change in the quarter. In addition, our revolving credit facility for $600 million remained unused.

SLIDE 19 – Jack McGinnis

Next, I'll review our outlook for the third quarter of 2021. Our guidance continues to assume no material additional lockdowns or business restrictions impacting our clients in any of our largest markets beyond those that exist today. On that basis, we are forecasting earnings per share for the third quarter to be in the range of $1.86 to $1.94, which includes a favorable impact from foreign currency of 4 cents per share.

Our constant currency revenue guidance growth range is between 12% and 16%. The mid-point of our constant currency guidance is 14%. A minor decrease in billing days in the third quarter and the slight impact of net dispositions impact the growth rate slightly, resulting in an outlook for organic days-adjusted revenue growth of 15% at the mid-point. Adding the context of comparisons to pre-crisis activity levels, this would represent a third quarter organic constant currency decline in the range of -1% to - 3% compared to 2019 revenues.

We expect our operating profit margin during the third quarter to be up 50 basis points at the midpoint compared to the prior year. This reflects another quarter of continued strong sequential underlying improvement.

We estimate that the effective tax rate in the third quarter will be 33%. Based on our improved earnings mix, we are now estimating the full year effective tax rate will approximate 33%, a 1% improvement from our previous estimate of 34% provided last quarter.

As usual, our guidance does not incorporate restructuring charges or additional share repurchases and we estimate our weighted average shares will be 55.2 million.

I will now turn it back to Jonas.

SLIDE 20 – Jonas Prising

Thanks, Jack.

We continue to invest in technology and are making great progress on our acceleration plans to Diversify, Digitize, and Innovate.

Starting with diversification, we have been recognized again for our award-winning RPO business within our Talent Solutions brand, scoring highly for our strong tech ecosystem, our consulting capabilities, data-driven solutions and business intelligence. This is the 11th year we have been named a global leader in RPO in the Everest Group PEAK Matrix Assessment. We have also just been named MSP leader for the 8th consecutive year by Everest recognizing us at the top in market impact. They also recognized our global leadership and tech as well as our workforce strategies, data-driven approach and scope of solutions including Right Management and our consulting capabilities. I congratulate our Talent Solutions colleagues for our leadership in the RPO and MSP space which is an important component of our diversification strategy to grow higher margin higher value business.

Next, on digitization, we continue to rapidly execute our technology and web transformation. Our PowerSuite tech stack is helping us to grow our competitive advantage, as we shift to cloud platforms improving our customer experience while streamlining our candidate management. Our approach ensures we are always current, able to plug in with the best tech and the capability to scale, while turning our data into a key asset. We continue to move at speed. 19 market deployments have been completed and another 16 are in flight. We look forward to providing a further update on this at year end.

We are also making great progress in Innovation. In June, we joined the biggest names in tech at the world-famous Viva Technology conference in Paris. As the conference's only HR partner since its launch five years ago, this is a great opportunity for us to showcase our newest innovation and work with more than 30 HR start-ups on how we're using AI, machine learning and data-driven predictive performance tools, together with our human expertise to upskill people at speed and scale and match people to jobs with better accuracy and speed than either humans or machines could do on their own.

Building a better, brighter future of work requires bold, disruptive ideas and collaboration across business, government, and education – this is how we will create sustainable skills, resilient communities, and greater prosperity for all. I would now like to open the call for Q&A.

Operator?