ManpowerGroup
Earnings Results Transcript
Q3 2022 CONFERENCE CALL

SLIDE 1 – Jonas Prising

Welcome to the third quarter conference call for 2022. Our Chief Financial Officer, Jack McGinnis, is 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 third quarter results and guidance for the fourth quarter of 2022. I will then share some concluding thoughts before we start our Q&A session. Jack will now cover the Safe Harbor language.

SLIDE 2 – Jack McGinnis

Good morning, everyone. This conference call includes forward-looking statements, including statements concerning economic and geopolitical uncertainty, 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.

Just last month we brought together our top 100 ManpowerGroup global leaders for the first time since before the pandemic. We spent an energizing time with our leadership team, global clients and thought leaders

– on talent shortages, customer innovation and tech disruption, providing us with an energizing outside-in/inside-out perspective. The headline conclusion was that human capital and skilled talent is at the forefront of every business leader's agenda and likely to remain so, as they navigate rapid technology transformation and an uncertain economic outlook. It would also be remiss of me here in Milwaukee this morning not to mention that our leadership event also included an inspiring contribution from the Milwaukee Bucks leadership team, they shared their growth and innovation strategy, culminating in their NBA championship a couple of years ago, and maybe another one this season which starts tonight, Go Bucks!

I'll share more on what we are hearing from our leaders and our clients a little later when I cover our perspective on the labor market.

Turning to our financial results, in the third quarter revenue was $4.8 billion, up 5% year over year in constant currency, or 2% in organic constant currency. Our EBITA for the quarter was $171 million. Adjusting for the U.S. acquisition integration costs, EBITA was $176 million, reflecting growth of 21% in constant currency year over year. Reported EBITA margin was 3.6%, and adjusted EBITA margin was 3.7%. Earnings per diluted share was $2.13 on a reported basis and $2.21 on an adjusted basis. Adjusted earnings per share increased 32% year over year in constant currency.

When I hear from our leaders and talk to our clients, they confirm that labor markets are still holding up well, despite increasing economic headwinds. Our own quarterly forward-looking ManpowerGroup Employment Outlook Survey and other indicators such as historically low unemployment in Europe and better than expected job creation in the U.S. continue to illustrate a resilient labor market.

At the same time, risks to the global economy have been growing and are having some impact on employer confidence. Elevated inflation, energy prices and the Ukraine-Russia conflict remain a top concern as central banks respond with significant interest rate increases. We continue to see solid demand across our major markets today, but we know that increasing employer concerns may translate into cooling talent demand in some industries and skills ahead.

We continue to see solid demand across our brands in both temporary and permanent hiring across sectors. The RPO and permanent placement market demand remains well above pre-pandemic levels of activity as employers continue to prioritize building the right blend of people, technology and skills for sustainable growth.

The last two years have taught us that if we remain laser focused on what we can control -- supporting our people, servicing our clients and candidates, and executing our DDI strategy -- we will continue to strengthen our mix of businesses and overall competitive position.

To this point, our business is now more diversified than ever –which I will come back to later, and we continue to see strong demand for our higher margin offerings. We are also beginning to reap the benefits of our technology investments. In short, we have never been more ready to navigate uncertainty and to pivot quickly to where opportunity lies.

I will now turn it over to Jack to take you through the results.

SLIDE 3 – Jack McGinnis

Thanks, Jonas.

Revenues in the third quarter came in just below the mid-point of our constant currency guidance range. Gross profit margin came in above our guidance range. As adjusted, EBITA was $176 million, representing a 21% increase in constant currency from the prior year period, or a 9% increase on an organic constant currency basis. As adjusted, EBITA margin was 3.7% and came in at the lower end of our guidance range, representing 50 basis points of year over year improvement, or 20 basis points organically.

Due to the significant strengthening of the dollar, particularly against the euro, year over year foreign currency movements continued to have a significant impact on our results. It is important to note that our businesses operate in local currencies and, as a result, foreign currency translation does not impact cash flow activity within our businesses and the result is largely an accounting item based on reporting translation into U.S. dollars. Foreign currency translation drove a 12% swing between the U.S. dollar reported revenue trend and the constant currency related growth rate. After adjusting for the negative impact of foreign exchange rates, our constant currency revenue increased 5%. Due to the impact of net acquisitions increasing revenue about three percent and slightly more billing days, the organic days-adjusted revenue increase was about 2% compared to our guidance of 3% at the midpoint. The slightly lower revenue trend was the result of more modest growth than anticipated in the Manpower brand, particularly in Northern Europe.

SLIDE 4 – Jack McGinnis

Turning to the EPS bridge, reported earnings per share was $2.13 which included 8 cents related to the Experis U.S. acquisition integration costs. Excluding the integration costs, adjusted EPS was $2.21. Walking from our guidance mid-point, our results included a softer operational performance of 8 cents, slightly lower weighted average shares due to share repurchases in the quarter which had a positive impact of 2 cents, an improved effective tax rate which had a positive impact of 4 cents, a foreign currency impact that was 4 cents worse than our guidance, particularly due to the euro and pound weakness during the quarter, and other expenses had a positive 4 cents impact.

SLIDE 5 – Jack McGinnis

Next, let's review our revenue by business line. Year over year, on an organic constant currency basis, the Manpower brand reported revenue growth of 1%, the Experis brand reported revenue growth of 5%, and the Talent Solutions brand reported revenue growth of 10%. Within Talent Solutions we continued to see significant revenue growth in RPO as permanent hiring trends remained strong across our key markets in the third quarter. Our MSP business saw a slight revenue decline in the quarter as we anniversaried significant levels of revenue growth in the prior year period, while Right Management experienced a slight revenue decline representing an improvement from a more significant decline in the second quarter.

SLIDE 6 – Jack McGinnis

Looking at our gross profit margin in detail, our gross margin came in at 18.3%. Staffing margin contributed a 60 basis point increase which included strong growth in higher margin business in Experis U.S. In addition, the Experis U.S. acquisition separately added 30 basis points. Permanent recruitment contributed a 50 basis point GP margin improvement as hiring activity continued to be strong across our largest markets. Talent Solutions contributed 10 basis points of improvement and other items represented a positive 20 basis points.

SLIDE 7 – Jack McGinnis

Moving onto our gross profit by business line. During the quarter, the Manpower brand comprised 56% of gross profit, our Experis professional business comprised 27%, and Talent Solutions comprised 17%.

During the quarter, our consolidated gross profit grew by 9% on an organic constant currency basis year over year.

Our **Manpower** brand reported an organic constant currency gross profit increase of 6% year over year.

Organic gross profit in our **Experis** brand increased 14% in constant currency year over year. This reflects strong growth in higher margin solutions as well as the continued strength of permanent recruitment.

Organic gross profit in **Talent Solutions** increased 17% in constant currency year over year. This was driven by the strong performance in RPO discussed earlier which was partially offset by a slight decrease in MSP as we anniversaried strong growth in the prior year period and a slight decrease in Right Management.

SLIDE 8 – Jack McGinnis

Our SG&A expense in the quarter was $717 million. Excluding acquisition integration costs, SG&A was 14% higher on a constant currency basis and 9% higher on an organic constant currency basis. This reflects continued investment in the growth sectors of the business, primarily reflecting additional recruiters and sales personnel in Experis, RPO and in various growth opportunity markets in Manpower. The underlying increases consisted of operational costs of $62 million, incremental costs related to net acquired businesses of $33 million, offset by currency changes of $74 million. Adjusted SG&A expenses as a percentage of revenue represented 14.8% in the third quarter.

SLIDE 9 – Jack McGinnis

The **Americas** segment comprised 26% of consolidated revenue. Revenue in the quarter was $1.2 billion, an increase of 27% in constant currency or 8% on an organic constant currency basis. OUP was $71 million. As adjusted, OUP was $77 million and OUP margin was 6.2%.

SLIDE 10 – Jack McGinnis

The **U.S.** is the largest country in the Americas segment, comprising 72% of segment revenues. Revenue in the U.S. was $887 million, representing a 37% days-adjusted increase, or 7% organically, compared to the prior year.

As adjusted to exclude acquisition integration costs, OUP for our U.S. business was $60 million in the quarter representing an organic increase of 14%. As adjusted, OUP margin was 6.8%.

Within the **U.S.,** the Manpower brand comprised 25% of gross profit during the quarter. Revenue for the Manpower brand in the U.S. increased 3% during the quarter, a consistent trend from the 3% growth recorded in the second quarter.

The Experis brand in the U.S. comprised 46% of gross profit in the quarter. Within Experis in the U.S., IT skills comprised approximately 90% of revenues. Experis U.S. had another very strong quarter with revenues growing 16% organically. The acquired U.S. Experis business had solid revenue growth during the quarter and the integration is largely complete with some final activities wrapping up early in the fourth quarter.

Talent Solutions in the U.S. contributed 29% of gross profit and experienced revenue growth of 6% in the quarter. This was driven by RPO as permanent hiring programs were active in the third quarter. The U.S. MSP business saw slight revenue decline as we anniversaried significant growth in the prior year period but continued to perform well. Within Right Management, career transition activity increased as we began to anniversary record low levels of activity in the U.S. in the prior year period.

In the fourth quarter, we expect a lower rate of revenue growth as compared to the third quarter trend in the U.S. which reflects continued growth in Experis offset by softening Manpower and Talent Solutions demand.

SLIDE 11 – Jack McGinnis

Southern Europe revenue comprised 42% of consolidated revenue in the quarter. Revenue in Southern Europe came in at $2 billion, representing a 1% decrease in organic constant currency. OUP equaled $100 million and OUP margin was 4.9%.

SLIDE 12 – Jack McGinnis

France revenue comprised 57% of the Southern Europe segment in the quarter and increased 3% in constant currency. OUP was $57 million in the quarter and OUP margin was 4.9%. Although Russia-Ukraine related supply chain disruptions continued to impact the automotive, construction and logistics sectors in France throughout the third quarter, the revenue trend stabilized with France experiencing a relatively steady and slightly better than expected growth rate during the quarter.

We are expecting the year over year constant currency revenue growth rate in the fourth quarter for France to be similar to the third quarter growth rate.

Revenue in **Italy** equaled $395 million in the quarter reflecting an increase of 3% in days-adjusted constant currency. OUP equaled $29 million and OUP margin was 7.3%. As we continue to anniversary significant revenue growth in the prior year period, we estimate that Italy will have a slightly lower constant currency revenue trend in the fourth quarter compared to the third quarter.

SLIDE 13 – Jack McGinnis

Our **Northern Europe** segment comprised 20% of consolidated revenue in the quarter. Revenue of $954 million represented a 1% decline in organic constant currency. OUP represented $13 million and OUP margin was 1.3%.

SLIDE 14 – 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 decreased 4% on a constant currency basis. This includes the exit of certain low margin arrangements replaced with higher fee-based margin business as well as an increased exposure to resilient public sector work. We expect a slightly improved revenue trend in the fourth quarter compared to the third quarter decline.

In **Germany**, revenues decreased 13% in constant currency in the third quarter. As we have discussed in the past, Germany remains one of our most difficult markets due to the regulations impacting management of the bench workforce, the outsized impact of the automotive sector and the continued supply chain disruptions brought on from the Russia-Ukraine war. We have taken actions to improve our Germany business and are progressing various initiatives focused on business mix and operational improvements. Overall, in the fourth quarter we are expecting a slightly improved level of revenue decline compared to the third quarter.

SLIDE 15 – Jack McGinnis

The **Asia Pacific Middle East** segment comprises 12% of total company revenue. In the quarter, revenue grew 12% in constant currency to $587 million. OUP was $24 million and OUP margin was 4.0%.

SLIDE 16 – Jack McGinnis

Our largest market in the APME segment is **Japan**, which represented 44% of segment revenues in the quarter. Revenue in **Japan** grew 12% in constant currency, or 11% on a days-adjusted basis. We remain very pleased with the consistent performance of our Japan business, and we expect continued strong revenue growth in the fourth quarter.

SLIDE 17 – Jack McGinnis

I'll now turn to cash flow and balance sheet. In the nine months year to date, free cash flow equaled $233 million compared to $343 million in the prior year. In the third quarter, free cash flow was very strong and represented $254 million compared to $172 million in the prior year.

At quarter end, days sales outstanding increased just under 1 day at 59 days. Capital expenditures represented $14 million during the third quarter.

During the third quarter we repurchased 1.14 million shares of stock for $85 million. As of September 30th, we have 2.4 million shares remaining for repurchase under the share program approved in August of 2021.

SLIDE 18 – Jack McGinnis

Our balance sheet ended the quarter with cash of $527 million and total debt of $896 million. Net debt equaled $369 million at quarter-end. Our debt ratios at quarter-end reflect total adjusted gross debt to trailing twelve months Adjusted EBITDA of 1.17 and total adjusted debt to total capitalization at 27%.

SLIDE 19 – Jack McGinnis

Our debt and credit facilities summary reflects the new Euro Note issuance maturing in June of 2027 at an effective interest rate of 3.514%. In accordance with the timeline we communicated when we announced the U.S Experis acquisition, we repaid the remaining $50 million which was drawn on the revolving credit agreement during the quarter.

SLIDE 20 – Jack McGinnis

Next, I'll review our outlook for the fourth quarter of 2022. Our guidance continues to assume no material additional COVID-19 or Russia-Ukraine war related impacts, including supply chain and energy related disruptions in Europe, beyond those that exist today. On that basis, we are forecasting underlying earnings per share for the fourth quarter to be in the range of $2.11 to $2.19, which includes an unfavorable foreign currency impact of 38 cents per share. We have disclosed our foreign currency translation rate estimates at the bottom of the guidance slide. This does not include the impact of the final portion of our projected acquisition integration costs of $3 to $5 million which will continue to be broken out separately from ongoing operations.

Our constant currency revenue guidance range is between a decrease of 1% and an increase of 3% and at the midpoint represents a 1% increase. On an organic days-adjusted basis, as we have now anniversaried the U.S. Experis acquisition, the impact of net dispositions increases the revenue growth slightly and, along with a lower number of billing days, the organic constant currency growth rate represents 2% at the mid-point. This represents a stable trend from the third quarter revenue growth on this same basis.

We expect our EBITA margin during the fourth quarter to be up 20 basis points at the midpoint compared to the prior year.

We estimate that the effective tax rate for both the fourth quarter and the full year of 2022 to be 30%.

As we consider the tax rate for 2023, as part of the preliminary 2023 France budget, the French government has announced the intention to reduce the remaining French business tax, known as “CVAE”, by 50% in 2023. The current proposal also then intends to fully abolish the remaining French business tax in 2024. If this preliminary budget provision is finalized as drafted, this initiative has the potential to reduce our global effective tax rate by approximately 1.5% in 2023 bringing our consolidated effective tax rate to 28.5% and by another 1.5% in 2024 bringing the global tax rate down to 27% at that time. We will continue to monitor any developments on this proposal, including any potential offsetting provisions and will provide an update on our year-end earnings call.

As usual, our guidance does not incorporate restructuring charges or additional share repurchases and we estimate our weighted average shares to be 51.7 million.

I will now turn it back to Jonas.

SLIDE 21 – Jonas Prising

Thanks Jack.

On our last call, we focused on the Digitization component of our Digitize, Diversify and Innovate strategy. Today I will share progress around our Diversification. Our business mix continues to shift towards our higher value brands, with our higher margin businesses Experis and Talent Solutions representing 44% of our gross profits, up from 35% in 2019. Our Manpower brand is also seeing good opportunities to diversify towards specialized skill sets both in perm and temporary staffing and reflected in improved gross margins for that brand as well.

Experis is a key part of our Diversification strategy and earlier this month, we celebrated one year since our acquisition of the ettain group in the U.S. We are very pleased with the excellent contributions of the team and integration into Experis, strengthening our offerings in digital workspace, business transformation, enterprise applications and cloud & infrastructure, and Experis has provided an all-time high contribution of 27% of ManpowerGroup gross profit year to date.

Experis is now positioned as one of the largest IT resourcing and solutions providers in both the global market and in the U.S. Those strong capabilities in the IT Resourcing and Solutions space have also been recognized by leading industry analysts. Experis was recently named a Leader and Star Performer in Everest Group's U.S. Contingent Staffing Services PEAK Matrix® Assessment, which highlighted our delivery capabilities, proprietary AI-enabled tools that chart personalized career paths for IT professionals, as well as the breadth of our upskilling offerings including Experis Career Accelerator and Experis Academy.

In addition to our leading Experis business, we continue to accelerate our Diversification strategy with the growth of our Talent Solutions brand. There too, our global offerings have recently been recognized with our Talent Solutions TAPFIN Managed Service Provider (MSP), once again achieving Global Leader and Star Performer acknowledgement in Everest Group's PEAK Matrix® assessment. This is the ninth consecutive year we have received this designation, scoring highly for technology innovation, including

IntelliReach, our self-service business intelligence platform that enables descriptive and predictive program performance and market data.

With our diverse business mix of leading global brands, more and more companies are turning to us for our expertise to enable them to manage uncertainty, obtain operational and strategic flexibility to accelerate their digital transformation and drive workforce trends addressing societal value at scale.

Sustainability and accelerating ESG progress continue to be a top priority for our clients and stakeholders, and we are proud to have published our second annual *Working to Change the World Plan* in September. It charts our significant progress around our Planet, People & Prosperity and Principles of Governance – and notably our reduction of direct emissions by 39% and our social mission progress, by addressing the growing structural skills shortage.

We are committed to leading in this space, and leveraging a science-based approach, embedding ESG in our business strategy and focusing our contributions and solutions around our human capital expertise and capabilities, building on our “doing well while doing good” foundation. On that note, I was pleased to expand our commitment to supporting refugees through our partnerships with Welcome US and as Co-Host of the TENT Partnership for Refugees US Business Summit where we joined 40+ leading companies in committing to hire more than 22,000 refugees over the next three years, with similar initiatives ongoing elsewhere in the world as well.

In closing, we see strong labor markets and continued solid demand but we acknowledge that downside risks have significantly increased for the global economic outlook. Our experienced global leadership team knows how to have one foot on the accelerator for market opportunities and the other on the brake where there is slowing demand, and we are confident in our ability to successfully navigate whatever market changes lie ahead.

With that, I’d now like to open the call to Q&A, Operator?