ManpowerGroup
Special Investors Call Transcript
August 24, 2021 CONFERENCE CALL

SLIDE 1 - Jonas Prising

Welcome to this special ManpowerGroup conference call regarding the acquisition of ettain group. Thank you to everyone for joining us on such short notice. Our Chief Financial Officer, Jack McGinnis, and our President for North America, Becky Frankiewicz, are 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. But before we proceed, Jack will now cover the Safe Harbor language and a related topic.

SLIDE 2 – Jack McGinnis

Good morning, everyone. This conference call contains statements, including, without limitation, statements regarding anticipated timing, completion and results of the proposed transaction, the expected tax treatment of the transaction, and the intended sources of funds for the transaction, that are forward-looking in nature and, accordingly, are subject to 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 presentation further identifies forward-looking statements made in this call and factors that may cause our actual results to differ materially from those described or contemplated in this call.

This call is devoted solely to the announcement of the ettain group acquisition, and we will not be providing a performance update on our ManpowerGroup operations during the third quarter.

SLIDE 3 – Jonas Prising

We are very pleased to announce our acquisition of ettain group, one of the largest privately held IT resourcing and services providers in North America. This acquisition will increase our depth of IT capabilities and expand our reach across more industry verticals. ettain is exclusively providing IT resourcing and services and generates high margins based on this specialization and as such, is a great fit for our Experis strategy.

You have heard me discuss our DDI Strategy, Diversification, Digitization and Innovation in previous investor calls. Today is an example of our Diversification strategy, and the acceleration of the evolution of our business mix with this acquisition.

This acquisition directly aligns with our long-standing strategy to advance our business mix to include a higher proportion of IT resourcing and services. When combined, our Experis mix will represent a quarter of our consolidated gross profit and Experis and talent solutions combined will move to almost 40% of ManpowerGroup gross profits.

SLIDE 4 – Jonas Prising

You have also heard me talk about Experis's specialization in IT. In recent years we have continued to prioritize IT and this acquisition will now bring our pro forma consolidated global Experis revenues estimated for 2021 to $4.5 billion and will represent 25% of our gross profit mix, with about 85% focused on IT. We continue to believe specialization in IT will enhance shareholder value as the global market for IT services is the single biggest skill specialization in our industry, and post pandemic, we expect it to continue growing. We have seen demand rebound quickly during the pandemic and we believe the value of these services has increased from a client perspective and need. Our superior global footprint gives us a competitive advantage as we can deliver IT resourcing and services to our national and multinational clients in the various geographies where they conduct business.

SLIDE 5 – Jonas Prising

Next, in terms of segment profile, ettain has significant presence in Financial Services and Healthcare IT. This is important as we view these segments as higher growth segments. This is also important as our Experis business in North America, although very strong in the technology and communications sectors, does not have as much depth in the Healthcare and Financial Services sectors.

You have heard us talk about our mix of clients as enterprise and convenience. ettain's business is primarily convenience clients which typically results in more attractive margins and lower demand volatility when compared to large enterprise clients. This also makes ettain a great fit for us as we can leverage their platform for our convenience clients and there is minimal geographical or client overlap. Becky and her team have spent a great deal of time with the ettain management team and I'll turn it over to her to provide some additional comments regarding the strength of this combination.

SLIDE 5 continued – Becky Frankiewicz

Thank you, Jonas. First, I would like to say to the ettain team that may be listening to this call this morning that I am delighted that you will be joining our Experis team. It has been a privilege to get to know ettain leadership and we are excited to add them to our North American team. I have been extremely impressed by their management practices, client solutions and ability to deliver higher end IT services to the market. Our Experis business delivers into five main practice areas and the addition of ettain will enhance our ability to deliver higher end services to new and existing clients. I am very excited about the opportunity to leverage the best of our and ettain's suite of workforce solutions following completion of the acquisition. The last point I would like to make is about culture. We know that this business is all about people, and it is critical that there is a good cultural fit among organizations to ensure success. I am confident the cultures of our organizations align very well and this will provide a great foundation for ongoing development for our employees and consultants as we take this business forward.

SLIDE 6 – Jonas Prising

Next, we summarize the profile of the combined global Experis business. You can see that this acquisition would move our North American Experis business from 27% of total global Experis today on a trailing twelve-month basis to 39% on a pro forma basis estimated for 2021. This is important as the U.S. represents the biggest professional services market in the world. Ettain will be integrated into the Experis Brand and with the additional capabilities they bring to the business, this will result in an ongoing strengthening of the Experis brand in the region. As Becky referenced, we look forward to welcoming the talented ettain leadership team to our North America Experis team. I'll now turn it over to Jack to talk about the financial aspects of the acquisition.

SLIDE 7 – Jack McGinnis

We will fund this acquisition primarily with available cash on hand. As you have heard me say many times, our consistent capital allocation strategy prioritizes utilizing available cash, after the dividend, to deploy towards strategic acquisitions when we identify attractive targets that meet our financial and operating criteria. We have built up a significant amount of cash during the pandemic and we are pleased to be able to immediately put this cash to work with this acquisition. We will utilize our revolving credit facility for approximately $150 million of the purchase price and our intent is to pay this down over the following 12 months. During this period, we expect to continue share repurchases to cover dilution and we would recommence more significant share repurchases after the revolver is paid down.

Another very important aspect of this acquisition is the anticipated sizable tax savings. On a tax basis, this acquisition is primarily an asset purchase, which will result in a tax step-up in basis that is tax deductible in future years. Because of the significant step-up in tax basis, we expect annual tax savings of about $9 million annually for 15 years. This represents a current net present value of $65 million. Reducing the purchase price by the value of this tax benefit, the underlying EBITDA multiple paid for ettain represents about 11.5 times.

SLIDE 8 – Jack McGinnis

Wrapping up the financial aspects of this acquisition, we expect it will be immediately accretive to earnings per share after excluding one-time deal costs and integration. We expect cost synergies of about $10 million annually commencing at the conclusion of our integration activities at the end of 2022. We estimate transaction costs to be approximately $15 million and integration costs to approximate $20 million during the 12 months following the purchase. Subject to closing conditions and regulatory approvals, this transaction could close as early as late September 2021. I will turn it back to Jonas.

SLIDE 9 – Jonas Prising

In summary, this acquisition has strong strategic, operational and financial benefits and accelerates our business mix diversification. We are excited about our continued progress in differentiating Experis as a global leader specializing in IT resourcing and services. This acquisition increases our presence in North America and improves our geo mix for Experis and we will benefit from higher growth and higher margin opportunities.

I would now like to open the call for Q&A.

Operator?