ManpowerGroup
Earnings Results Transcript
Q3 2021 CONFERENCE CALL

SLIDE 1 - Jonas Prising

Welcome to the third 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 third quarter results and guidance for the fourth quarter. I will then share some concluding thoughts before we start our Q&A session. But before we start, 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.

Following our announcement and special investor call in late August, we were very pleased to recently announce the successful and timely completion of the ettain group acquisition. ettain was one of the largest privately held IT resourcing and services providers in North America and, since October 1st, is now operating as part of our Experis business. In addition to expanding our IT services in the financial and healthcare sectors, this acquisition also improves our geographic diversification in the U.S. and increases our strength in the digital workspace and business transformation practice areas. I will talk more about the good progress of the Diversification component of our DDI strategy – Diversification, Digitization, and Innovation – a little later in this call.

Turning to our financial results, in the third quarter revenue was $5.1 billion, up 11% year over year in constant currency.

Our operating profit for the quarter was $151 million. Excluding Mexico restructuring and ettain acquisition transaction costs, operating profit was $162 million. Operating profit was up significantly year over year as the pandemic had a significant financial impact in the prior year. Reported operating margin was 2.9%, and after excluding Mexico restructuring and acquisition costs, operating profit margin was 3.2%. Reported earnings per diluted share was $1.77 and $1.93 after excluding Mexico restructuring and acquisition costs. Both were significantly above the prior year.

The global economic recovery continued in the 3rd quarter. As vaccine rollouts progress in many countries, and pandemic related restrictions ease, we continue to see very strong hiring demand. This strong demand is again evident in our Q4 ManpowerGroup Employment Outlook Survey of more than 40,000 employers in 43 countries. All countries are reporting improved hiring intentions (year on year) and in 14 of the 43 countries employers are reporting hiring intentions at the highest levels in more than ten years.

That said, during the third quarter we have also seen some levelling off in the rate of recovery in some markets. Concerns about the Delta variant contribute to parts of the workforce not coming back into the labor market and exacerbating worker shortages in many industries and markets, making it more difficult to meet the strong demand for workers. The impact related to supply chain challenges caused by the pandemic have also become a more visible factor impacting many manufacturers in various industries.

As we discussed on our 2nd quarter earnings call, we view supply chain challenges and the impact of the Delta variant as transitory factors, and we remain optimistic and confident in the demand outlook once the effects of the pandemic normalize. Companies all over the world need access to skilled Human Capital to meet their business objectives and fully participate in the economic global recovery. With our operational and strategic workforce solutions and services, we help them meet the strong demand for their goods and services today and into the future.

SLIDE 3 – Jack McGinnis

Thanks, Jonas.

Revenues in the third quarter came in just below our constant currency guidance range driven by a slowdown in the rate of improvement in France due to supply chain disruptions, notably in the automotive sector, and Delta variant disruptions. Gross profit margin came in well above our guidance range. As adjusted operating profit was $162 million, representing a significant increase from the prior year period which was heavily impacted by the pandemic. As adjusted operating profit margin was 3.2%, which was at the top end of our guidance.

Breaking our revenue trend down into a bit more detail, after adjusting for the positive impact of currency of about 1%, our constant currency revenue increased 11%. Due to the impact of net dispositions and slightly fewer billing days, the organic days-adjusted revenue increase was 12%. Comparing to pre-pandemic levels, our third quarter revenues were below 2019 levels by 5% on an organic days-adjusted constant currency basis, which is slightly lower than the second quarter trend on this same basis due to the impact of the new regulations in Mexico and the exiting of a low margin arrangement in Australia.

SLIDE 4 – Jack McGinnis

Turning to the EPS bridge on slide 4, earnings per share was $1.77 which included 7 cents related to Mexico restructuring costs and 9 cents related to acquisition transaction costs. Excluding these costs, adjusted EPS was $1.93 which exceeded the mid-point of our guidance range. Walking from our guidance mid-point, our results included improved operational performance of 2 cents, slightly lower than expected foreign currency exchange rates which had a negative 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 16.6%. Underlying staffing margin contributed a 20 basis point increase. Permanent recruitment contributed an 80 basis point GP margin improvement as hiring activity was strong across our largest markets. A lower mix of Right Management career transition business this year drove 30 basis points of GP margin reduction. Other and accrual adjustments included a 10 basis point margin improvement from our Experis managed services business in Europe and a 10 basis point improvement from consulting and MSP services partially offset by a 10 basis point reduction from lower direct cost adjustments in the current year as favorable direct cost adjustments in Latin America were less than the prior year favorable adjustments in France.

SLIDE 6 – Jack McGinnis

Next, let's review our gross profit by business line. During the quarter, the Manpower brand comprised 63% of gross profit, our Experis professional business comprised 22%, and Talent Solutions comprised 15%.

During the quarter, our **Manpower** brand reported an organic constant currency gross profit year over year growth of 15%. Compared to pre-pandemic levels, this represented a decrease of 4% from the third quarter of 2019 on an organic constant currency basis.

Gross profit in our **Experis** brand increased 24% on an organic constant currency basis year over year during the quarter. This represented a flat trend from the third 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 16% in constant currency year over year. This represented an increase of 14% from the third quarter of 2019 on an organic constant currency basis. Our RPO business posted high double digit GP growth during the quarter on significant hiring activity. Our MSP business, which has grown through the entire pandemic, continued to experience double digit growth in gross profit in the quarter. As the recovery strengthens, our Right Management business continues to see a significant run-off in outplacement activity, primarily in the U.S., and experienced a reduction in gross profit of 42% year over year.

SLIDE 7 – Jack McGinnis

Our SG&A expense in the quarter was $703 million and represented a 6% increase on a reported basis from the prior year. Excluding Mexico restructuring charges and acquisition costs in the current year and restructuring charges and a loss from dispositions in the prior year, SG&A was 13% higher on a constant currency basis. This compares to an increase in gross profit of 17% in constant currency and reflects investment in incremental recruiters and sales talent based on increased market activity, as well as ongoing technology initiatives. The underlying increases consisted of operational costs of $78 million and currency changes of $6 million. SG&A expenses as a percentage of revenue, after excluding restructuring and acquisition costs, represented 13.4% in the third quarter.

SLIDE 8 – Jack McGinnis

The **Americas** segment comprised 19% of consolidated revenue. Revenue in the quarter was $1 billion, an increase of 8% in constant currency. OUP was $41 million. Excluding Mexico restructuring costs and ettain acquisition costs, OUP was $52 million and OUP margin was 5.2%.

SLIDE 9 – Jack McGinnis

The **U.S.** is the largest country in the Americas segment, comprising 65% of segment revenues. Revenue in the U.S. was $645 million, representing an 11% increase compared to the prior year.

Excluding ettain acquisition costs in the current year and restructuring charges in the prior year, OUP for our U.S. business is flat year over year at $34 million in the quarter as the decreases from Right Management's career placement run-off was offset by improvements across all other businesses. Excluding the acquisition costs, OUP margin was 5.3%.

Within the **U.S.,** the Manpower brand comprised 33% of gross profit during the quarter. Revenue for the Manpower brand in the U.S. increased 9% during the quarter. While the U.S. Manpower business continues to recover, the labor shortage experienced in the second quarter continued into the third quarter through the summer months.

The Experis brand in the U.S. comprised 33% of gross profit in the quarter. Within Experis in the U.S., IT skills comprise approximately 80% of revenues. Experis U.S. revenues grew 17% during the quarter and we anticipate continued strong double digit organic growth in the fourth quarter. We are encouraged by the current trends in our U.S. Experis business and the recent acquisition of ettain which significantly increases our presence in the convenience market for IT professional services.

Talent Solutions in the U.S. contributed 34% of gross profit and experienced revenue growth of 9% in the quarter. This was driven by RPO which experienced record revenue levels 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 fourth quarter, on an organic basis, we expect ongoing underlying improvement and revenue growth for the U.S. in the range of 1% to 5% year over year. This represents a 1% decline compared to 2019 levels using the midpoint of our guidance. Separately, we estimate ettain revenues within a range of $175 million to $185 million in the fourth quarter.

Our **Mexico** operation experienced a revenue decline of 46% in constant currency in the quarter. The decline was driven by the new labor legislation which prohibits certain types of temporary staffing not considered specialized services. The actual reduction in demand from our clients from the regulation was more severe than originally anticipated. The restructuring actions we have taken in the third quarter have quickly right-sized this business for the impact of the new regulations. Although this will result in significant 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 over time. We also believe there may be additional revenue opportunities over time as clients adjust their workforce strategies. We estimate that fourth quarter revenues in Mexico will decrease by approximately 55% to 60% year over year. Mexico represented 2.8% of our 2020 revenues.

Revenue in **Canada** increased 15% in constant currency during the quarter.

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 12% in constant currency. OUP equaled $111 million and OUP margin was 4.6%.

SLIDE 11 – Jack McGinnis

France revenue comprised 55% of the Southern Europe segment in the quarter and increased 8% in constant currency. Compared to the same period in 2019, France revenues were down 10%. Automotive supply chain constraints and the Delta variant slowed the rate of recovery in the third quarter for our French business. OUP was $62 million in the quarter and OUP margin was 4.7%.

As we begin the fourth quarter, we are estimating a year over year constant currency increase in revenues for France in the range of 2% to 6%. Comparing estimated fourth quarter revenues to pre-crisis levels in constant currency, this represents an 8% decline compared to 2019 levels in the fourth quarter using the midpoint of our guidance.

Revenue in **Italy** equaled $456 million in the quarter reflecting an increase of 28% in days-adjusted constant currency. Through the third quarter, revenues in Italy continue to exceed 2019 levels. OUP equaled $31 million and OUP margin was 6.7%. We estimate that Italy will continue to perform very well in the fourth quarter with year over year constant currency revenue growth in the range of 7% to 11%.

Revenue in **Spain** increased 1% in days-adjusted constant currency from the prior year and revenue in **Switzerland** increased 21% in days-adjusted constant currency.

SLIDE 12 – Jack McGinnis

Our **Northern Europe** segment comprised 23% of consolidated revenue in the quarter. Revenue increased 19% in constant currency to $1.2 billion driven by all major markets. OUP represented $17 million and OUP margin was 1.4%.

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 26% in constant currency. We expect continued growth in the 4% to 8% constant currency range year over year in the fourth quarter.

In **Germany,** revenues increased 13% in days-adjusted constant currency in the third quarter. We expect to see ongoing revenue improvement in Germany in the fourth quarter.

In the **Nordics**, revenues grew 19% in constant currency.

Revenue in the **Netherlands** increased 5% in constant currency.

Belgium experienced days-adjusted revenue growth of 10% in constant currency during the quarter.

SLIDE 14 – Jack McGinnis

The **Asia Pacific Middle East** segment comprises 12% of total company revenue. In the quarter, revenue grew 4% in constant currency to $611 million. OUP was $23 million and OUP margin was 3.7%.

SLIDE 15 – Jack McGinnis

Revenue in **Japan** grew 13% in constant currency which represents an improvement from the 10% growth rate in the second quarter. Our Japan business continues to lead the market in revenue growth, and we expect ongoing high single digit revenue growth in the fourth quarter.

Revenues in **Australia** were down 29% in constant currency reflecting the exit of a low margin client arrangement during the second quarter.

SLIDE 16 – Jack McGinnis

I'll now turn to cash flow and balance sheet. During the first nine months of the year, free cash flow equaled $343 million compared to $685 million in the prior year reflecting significant accounts receivable declines in the prior year period. Our third quarter free cash flow of $172 million exceeded the prior year period free cash flow of $108 million, representing strong current period cash collections.

At quarter end, days sales outstanding was flat year over year at 58 days. Capital expenditures represented $40 million for the nine-month period and $15 million during the third quarter.

During the third quarter we did not have any share repurchases. Our year-to-date purchases stand at 1.5 million shares of stock for $150 million. As of September 30th, we have 1.9 million shares remaining for repurchase under the 2019 share program and 4 million shares remaining under the share program approved in August of 2021.

SLIDE 17 – Jack McGinnis

Our balance sheet was strong at quarter-end with cash of $1.61 billion and total debt of $1.07 billion, resulting in a net cash position of $547 million. On October 1st we utilized $800 million of cash to fund the acquisition of ettain. Our debt ratios at quarter-end reflect total gross debt to trailing twelve months Adjusted EBITDA of 1.63 and total debt to total capitalization at 30%.

SLIDE 18 – Jack McGinnis

Our debt and credit facilities did not change in the quarter. Although our revolving credit facility for $600 million remained unused at September 30th, we did draw $150 million on October 1st in conjunction with the funding of the ettain acquisition. As we previously indicated, we intend to pay this down over the next 12 months.

SLIDE 19 – Jack McGinnis

Next, I'll review our outlook for the fourth quarter of 2021. Our guidance continues to assume no material additional COVID-19 related difficulties beyond those that exist today, including incremental supply chain disruptions, additional variants and the emergence of adverse trends impacting our clients in any of our largest markets. On that basis, we are forecasting earnings per share for the fourth quarter to be in the range of $1.99 to $2.07, which includes an unfavorable foreign currency impact of 4 cents per share and a positive 13 cents impact from ettain. This does not include the impact of acquisition transaction costs of approximately $9 million or integration costs of $4 to $6 million which will be broken out separately from ongoing operations.

Our constant currency revenue guidance growth range is between 5% and 9% and, after adjusting for ettain, our organic constant currency growth range is estimated between 2% and 6%. The mid-point of our constant currency guidance is 7%. A minor decrease in billing days in the fourth quarter and the impact of net acquisitions, driven by ettain, impact the growth rate, resulting in an outlook for organic days-adjusted revenue growth of 4% at the mid-point. This would represent a fourth quarter organic constant currency decline in the range of -2% to -4% compared to 2019 revenues representing an improvement from our third quarter trend.

Although final purchase accounting for the ettain acquisition will be finalized in the months ahead, we currently estimate that intangible asset amortization will be approximately $24 million annually. Since amortization will be more significant going forward, we are also disclosing operating profit before amortization, or EBITA, to help assess underlying financial performance. We estimate that EBITA margin during the fourth quarter will be up 30 basis points at the midpoint compared to the prior year with ettain contributing 20 basis points of the improvement. We expect our operating profit margin during the fourth quarter to be up 20 basis points at the midpoint compared to the prior year with ettain contributing 10 basis points of the improvement.

We estimate that the effective tax rate in the fourth quarter will be 32%.

As usual, our guidance does not incorporate restructuring charges or additional share repurchases and we estimate our weighted average shares to be 55.3 million.

I will now turn it back to Jonas.

SLIDE 20 – Jonas Prising

Thank you, Jack.

The acceleration of digitization and investment in technology by companies during the pandemic means organizations are requiring new skills and capabilities for the future.

While hiring intentions are at some of the highest levels we have seen in years, it is unlikely employers will be able to fulfill all these intentions as a result of labor market shortages for many skills. Our most recent global Talent Shortage survey found that shortages are at a 15 year high for the second consecutive quarter, with 69% of employers stating they cannot find the talent they need.

In response, organizations are looking ahead, focusing on strengthening their workforce and reskilling, upskilling and building the capabilities to ensure their existing and future workforce has the skills to remain competitive. We believe this is an opportunity for us and through our Diversification strategy, we are **sourcing** the talent they are looking for through the offerings in our Manpower, Experis and Talent Solutions brands. We are also investing in Innovation to **create** the talent pools with skills and capabilities at scale. Our successful Manpower MyPath program has impacted over 129,000, lives to date and is a great example of this. Through

MyPath, we are building the talent pool of the future and providing clients access to our high potential associates.

Another recent example of innovation is our Experis Career Accelerator – launched at the global Viva Tech conference in Paris earlier this year and now active in six markets. Experis Career Accelerator is our AI-driven platform, developed in partnership with FutureFit AI. Using machine learning and dynamic data to scan the market, it can match our Experis Consultants to IT learning pathways and in-demand roles. We are attracting, developing, and upskilling our consultants by providing curated learning and technical training content from the world's leading tech clients and accredited learning partners, and preparing our people with the skills tech employers need most.

Machine learning is also helping us grow our own people's expertise – so they are even better at assessing and predicting performance to provide a better job match than either humans or machines could on their own. That's an example of how we continue to innovate in our brands to invest in our capability to both find and create the best talent pipeline in the market, for the benefit of the organizations we work with and for the benefit of the individuals for whom we provide sustainable and meaningful careers and employment.

This investment in our people's skills is also reflected in our recent internal Annual People Survey where we are pleased to see higher employee engagement levels year over year, despite the challenges experienced by many of them during the pandemic. We are proud and very grateful for the strong culture of our organization and we see this as a competitive advantage with opportunities for even further improvement, positioning us very well for future growth.

I'd now like to open the call for Q&A. Operator?