ManpowerGroup
Earnings Results Transcript
Q4 2021 CONFERENCE CALL

SLIDE 1 – Jonas Prising

Welcome to the fourth 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 fourth quarter results and guidance for the first 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 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.

With another unique pandemic year behind us, we continue to see the global recovery progress, strong hiring levels and employer optimism persist across our geographies, even when the pace of recovery has been hampered, most recently by the Omicron variant.

Before I turn to our financials for the fourth quarter and full year let me start by thanking all our people. Our resilience, agility, and innovation has continued to be tested during the last year and I am proud of and thankful to our ManpowerGroup team for their relentless pursuit of success and unwavering delivery of our People First commitment. Thank you for all you do every day, helping our clients navigate a challenging environment and delivering on our purpose by finding meaningful sustainable employment for millions of people.

Turning to our financial results, in the fourth quarter revenue was $5.4 billion, up 9% year over year in constant currency, or 6% in organic constant currency. Our EBITA for the quarter was $177 million. Adjusting for the ettain transaction and integration costs, EBITA was $189 million, reflecting significant improvement year over year. Reported EBITA margin was 3.3%, and adjusted EBITA margin was 3.5%. Reported earnings per diluted share was $2.02 and $2.20 on an adjusted basis. Both were significantly above the prior year.

SLIDE 4 – Jonas Prising

Turning to full year results for a moment, reported earnings per share for the year was $6.91. Adjusted earnings per share was $7.24 and represented a constant currency increase of 93% year over year, or 88% organically. Revenues for the year increased 12% in constant currency, or 11% organically to $20.7 billion, and reported EBITA was $610 million. Adjusted EBITA was $634 million which represented a significant constant currency improvement year over year.

Globally, we continue to be optimistic and well-prepared to benefit from the market opportunities ahead. We believe the pandemic has accelerated the impact of various trends we have been tracking for some time: notably talent shortages due to changing demographics and changing demands for skills due to digital transformation across industries and geographies. Employers are adapting to the new environment by transforming their business models, and their attraction and retention strategies for new skillsets; all of this against a backdrop of volatility. The strategic and operational flexibility that our clients need to transform and thrive aligns well to our own transformation: our shifting business mix, our investments in technology, and progress on our plans to Diversify, Digitize and Innovate (DDI), which I will share more on shortly.

In the fourth quarter, we saw increasing confidence and a stronger, dynamic labor market, even if the Omicron variant muted sentiment somewhat in the final weeks of the quarter. More people were returning to work and changing jobs than we have seen for quite some time, resulting in more of a mass reshuffle in my view than a mass resignation. Europe's unemployment rates are now below pre-pandemic levels and the US is catching up quickly as well.

This optimism was further reinforced by our own data from our ManpowerGroup Employment Outlook Survey – which showed that across 40 countries and 40,000 employers hiring outlooks were strong. For the first time since the pandemic began all countries reported positive hiring outlooks.

We are also seeing this strong demand across all of our brands. In both temporary and permanent hiring across sectors within Manpower, Experis and in our market leading RPO and MSP businesses within Talent Solutions. Now, more than ever, companies need our help to source, upskill, and manage their workforce; to embrace bold thinking on where, when, and how work gets done in order to compete for scarce talent and offer what workers want, while balancing the requirements of their business.

SLIDE 3 – Jack McGinnis

Thanks, Jonas.

Going back to the quarterly results on slide 3, revenues in the fourth quarter came in at the top end of our constant currency guidance range. Gross profit margin came in above our guidance range. As I mentioned last quarter, due to the amortization associated with our recent acquisition, we have added EBITA, representing operating profit before amortization of intangible assets, to our financial information to provide additional information on underlying performance. Operating profit is also disclosed but we will talk to EBITA. As adjusted, EBITA was $189 million, representing a 24% increase in constant currency from the prior year period, or a 12%

increase on an organic constant currency basis. As adjusted, EBITA margin was 3.5% and came in at the top end of our guidance, representing 40 basis points of improvement, or 20 basis points organically.

Breaking our revenue trend down into a bit more detail, after adjusting for the negative impact of currency of 3%, our constant currency revenue increased 9%. Due to the impact of net acquisitions of almost 4% and slightly fewer billing days, the organic days-adjusted revenue increase was 6%. Comparing to pre-pandemic levels, our fourth quarter revenues were below 2019 levels by 1% on an organic constant currency basis, which is a 4% improvement from the third quarter trend on this same basis.

SLIDE 5 – Jack McGinnis

Turning to the EPS bridge on slide 5, reported earnings per share was $2.02 which included $0.18 related to ettain transaction and integration costs. Excluding these costs, adjusted EPS was $2.20 which was well above the top end of our guidance range. Walking from our guidance mid-point, our results included improved operational performance of $0.12, slightly lower weighted average shares due to share repurchases in the quarter which had a positive impact of $0.01, a slightly better effective tax rate that added $0.03, and favorable other expenses which added $0.01.

SLIDE 6 – Jack McGinnis

Next, let's review our revenue by business line. Experis and Talent Solutions experienced organic constant currency growth versus 2019 in the fourth quarter, while Manpower significantly closed the gap to pre-pandemic revenue levels. Year over year, on an organic constant currency basis, the Manpower brand reported revenue growth of 4%, the Experis brand reported revenue growth of 14%, and the Talent Solutions brand reported revenue growth of 11%. Within Talent Solutions we saw record setting revenue figures for the year in both our RPO and MSP businesses. In the quarter, RPO had revenue growth in the very high double-digit percentages and MSP in double digit percentages year over year. As we continue to experience a record low outplacement environment, Right Management saw double digit percentage revenue decreases year over year.

SLIDE 7 – Jack McGinnis

Looking at our gross profit margin in detail, our gross margin came in at 17.2%. Underlying staffing margin contributed a 40 basis point increase. The ettain acquisition added 30 basis points. 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 drove 30 basis points of GP margin reduction. Improvement from Experis solutions resulted in a 10 basis point margin improvement. Other items represented an additional 10 basis point improvement.

SLIDE 8 – Jack McGinnis

Moving onto our gross profit by business line. During the quarter, the Manpower brand comprised 59% of gross profit, our Experis professional business comprised 26%, reflecting an all-time high contribution post ettain, and Talent Solutions comprised 15%.

During the quarter, our **Manpower** brand reported an organic constant currency gross profit year over year growth of 9%. Compared to pre-pandemic levels, this was 2% below the fourth quarter of 2019.

Gross profit in our **Experis** brand increased 25% on an organic constant currency basis year over year during the quarter. This represented an increase of 7% from the fourth quarter of 2019.

Organic gross profit in **Talent Solutions** increased 15% in constant currency year over year. This represented an increase of 16% from the fourth quarter of 2019 on an organic constant currency basis. This was driven by the great performance in RPO and MSP discussed earlier which was partially offset by the decreases in Right Management due to outplacement trends.

SLIDE 9 – Jack McGinnis

Our SG&A expense in the quarter was $760 million. Excluding the net impact of the ettain transaction and integration costs in the current year and restructuring charges in the prior year, SG&A was 18% higher on a constant currency basis and 13% higher on an organic constant currency basis. This reflects continued investment in the business. The underlying increases consisted of operational costs of $85 million, incremental costs related to acquired businesses of $31 million, offset by currency changes of $17 million. Adjusted SG&A expenses as a percentage of revenue represented 13.9% in the fourth quarter.

SLIDE 10 – Jack McGinnis

The **Americas** segment comprised 23% of consolidated revenue. Revenue in the quarter was $1.2 billion, an increase of 22% in constant currency or 3% on an organic constant currency basis, or 5% after adjusting for days. OUP was $54 million. As adjusted, OUP was $67 million and OUP margin was 5.5%. A lower mix of Right Management outplacement activity drove the 10 basis point reduction in OUP margin on an organic constant currency basis.

SLIDE 11 – Jack McGinnis

The **U.S.** is the largest country in the Americas segment, comprising 71% of segment revenues. Revenue in the U.S. was $861 million, representing a 39% increase, or 8% organically, compared to the prior year.

As adjusted to exclude acquisition transaction and integration costs, OUP for our U.S. business was $53 million in the quarter representing an organic increase of 15%. As adjusted, OUP margin was 6.2%, or 5.2% on an organic basis.

Within the **U.S.,** the Manpower brand comprised 29% of gross profit during the quarter. Revenue for the Manpower brand in the U.S. increased 2% during the quarter. Aside from normal seasonality in December, we have seen our levels of associates on assignment build during the fourth quarter and again in early January as workers continue to return to the labor force.

The Experis brand in the U.S. comprised 43% of gross profit in the quarter. Within Experis in the U.S., IT skills comprised approximately 90% of revenues. Experis U.S. revenues grew 24% organically during the quarter and we anticipate continued strong double digit organic growth in the first quarter of 2022. The ettain business also performed well during the quarter and the early phases of the integration are proceeding on-schedule. We are encouraged by the current trends in our U.S. Experis business, including ettain, which has significantly increased our presence in the convenience market for IT professional services.

Talent Solutions in the U.S. contributed 28% of gross profit and experienced revenue growth of 9% in the quarter. This was driven by RPO which continues to win new business and experienced record revenue levels during the quarter as hiring programs continued to strengthen. The U.S. MSP business continued to perform well and experienced record revenue levels in the quarter as well. Within Right Management, career transition activity continued to run-off as the economy strengthens.

In the first quarter, we expect ongoing underlying improvement and revenue growth for the U.S. in the range of 38% to 42% year over year, or 8% to 12% organically.

Our **Mexico** operation experienced a revenue decline of 60% in constant currency in the quarter. The decline was driven by the new labor legislation we discussed in the prior quarter. Although the impact of the legislation has had a more severe impact on the industry than originally anticipated, the fourth quarter trend reflects the stabilized impact. We anticipate a similar revenue decrease in the first quarter.

SLIDE 12 – Jack McGinnis

Southern Europe revenue comprised 43% of consolidated revenue in the quarter. Revenue in Southern Europe came in at $2.4 billion, growing 6% in constant currency. OUP equaled $117 million and OUP margin was 4.9%.

SLIDE 13 – Jack McGinnis

France revenue comprised 55% of the Southern Europe segment in the quarter and increased 6% in constant currency. Compared to the same period in 2019, France revenues were down 6%, improving from down 10% in the third quarter. OUP was $64 million in the quarter and OUP margin was 4.8%.

As we begin the first quarter, we are estimating a year over year constant currency increase in revenues for France in the range of 6% to 10%.

Revenue in **Italy** equaled $467 million in the quarter reflecting an increase of 15% in constant currency. OUP equaled $33 million and OUP margin was 7.2%. We estimate that Italy will continue to perform very well in the first quarter with year over year constant currency revenue growth in the range of 13% to 17%.

SLIDE 14 – Jack McGinnis

Our **Northern Europe** segment comprised 22% of consolidated revenue in the quarter. Revenue increased 9% in constant currency to $1.2 billion driven by most of our major markets. OUP represented $29 million and OUP margin was 2.4%. As indicated in the notes to the segment results slide, during the quarter we had a modest restructuring charge in Germany which was offset by a one-time pension gain.

SLIDE 15 – Jack McGinnis

Our largest market in the Northern Europe segment is the **U.K.**, which represented 36% of segment revenues in the quarter. During the quarter, U.K. revenues grew 6% in constant currency. Our UK business is performing well and we expect flat to slight decreases in revenues in the first quarter reflecting the exit of certain low margin arrangements, replaced with higher fee-based margin opportunities. These and other actions including permanent recruitment growth are driving significant improvement in the margin profile of our UK business.

In **Germany,** revenues increased 9% in days-adjusted constant currency in the fourth quarter. We expect to see constant currency mid-single digit percentage revenue improvement year over year in Germany in the first quarter.

As noted in our earnings release materials today, as part of our geographic portfolio strategy, we sold our Russia business which will operate as a franchise going forward. This will reduce our Northern Europe revenues by approximately $125 million annually and will have a favorable impact on our global gross profit and EBITA margins going forward.

SLIDE 16 – Jack McGinnis

The **Asia Pacific Middle East** segment comprises 12% of total company revenue. In the quarter, revenue grew 7% in constant currency to $623 million. OUP was $21 million and OUP margin was 3.3%.

SLIDE 17 – Jack McGinnis

Revenue in **Japan** grew 16% in constant currency which represents an improvement from the 13% growth rate in the third quarter. We are very pleased with the performance of our Japan business which continues to lead the market in revenue growth and we expect continued strong revenue growth in the first quarter.

SLIDE 18 – Jack McGinnis

I'll now turn to cash flow and balance sheet. In full year 2021, free cash flow equaled $581 million compared to $886 million in the prior year. The prior year result included significant cash inflow from accounts receivable declines from the onset of the pandemic. Our fourth quarter free cash flow of $238 million exceeded the prior year period free cash flow of $201 million, representing strong current period cash collections.

At quarter end, days sales outstanding was up 1 day year over year at 55 days. Capital expenditures represented $64 million for the year and $24 million during the fourth quarter.

During the fourth quarter we repurchased 643,000 shares of stock for $60 million. Our full year purchases stand at 2.1 million shares of stock for $210 million. As of December 31st, we have 1.2 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 19 – Jack McGinnis

Our balance sheet ended the year with cash of $848 million and total debt of $1.12 billion, resulting in a net debt position of $271 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 1.64 and total debt to total capitalization at 31%.

SLIDE 20 – Jack McGinnis

Our debt and credit facilities did not change in the quarter. We utilized $150 million of the $600 million revolving credit facility on October 1st in conjunction with the funding of the ettain acquisition. We are pleased to report that we have already repaid half of this amount after three months, and, as previously indicated, we expect to pay down the remainder over the next 9 months.

SLIDE 21 – Jack McGinnis

Next, I'll review our outlook for the first quarter of 2022. Our guidance continues to assume no material additional COVID-19 related difficulties beyond those that exist today. On that basis, we are forecasting underlying earnings per share for the first quarter to be in the range of $1.56 to $1.64, which includes an unfavorable foreign currency impact of 10 cents per share. This does not include the impact of acquisition integration costs of $4 to $6 million or the loss on disposition of our Russia business of approximately $8 million which will be broken out separately from ongoing operations.

Regarding revenues, the stabilized impact of the regulation in Mexico represents a year over year revenue loss of about 2% in the first quarter of 2022. Considering this, our constant currency revenue guidance growth range is between 6% and 10%. After adjusting for the acquisition of ettain and the disposition of Russia mid-January, our organic constant currency growth range is estimated between 3% and 7%. As billing days are only a minor increase in the first quarter, this results in an organic days-adjusted revenue growth rate of 5% at the mid-point.

We expect our EBITA margin during the first quarter to be up 70 basis points at the midpoint compared to the prior year with ettain contributing 20 basis points of the improvement.

We estimate that the effective tax rate for both the first quarter and the full year of 2022 to be 30%. This incorporates the final phase of the multi-year reduction in the France corporate tax rate and a continuation of the 2021 French Business Tax reduction.

As usual, our guidance does not incorporate restructuring charges or additional share repurchases and we estimate our weighted average shares to be 54.6 million.

I will now turn it back to Jonas.

SLIDE 22 – Jonas Prising

Thank you, Jack.

A year ago, we updated you on our acceleration progress for DDI – Diversification, Digitization and Innovation. Reflecting on that update, we are pleased with our progress during 2021 and confident that these strategic choices and investments are strengthening our capabilities, differentiating our offerings, and providing the foundation for profitable growth and long-term sustainable value creation.

We are making great progress on Diversification by improving our business mix, expanding the contribution of higher growth and higher value services, especially our Experis IT resourcing, Talent Solutions, and Manpower permanent recruitment.

Specific to Experis, which makes up 26% of our GP business mix globally, we are proud of the successful completion, at speed, of our acquisition of the ettain group in recent months which is off to a great start with a full quarter of contribution during the quarter. Our increased presence in the IT convenience segment of the market, positions us as an overall top four IT resourcing and services provider in the U.S. market and serves to reduce the impact of revenue volatility occasionally associated with large enterprise clients' shifts in demand.

Talent Solutions also plays a critical role in our ongoing diversification as it includes our highest margin businesses of MSP, RPO and Right Management. As Jack mentioned, we are seeing record levels of volumes in both our MSP and RPO businesses which are driving an increased contribution from Talent Solutions overall. We expect the Right Management outplacement volume to stabilize in the quarters ahead. Right Management will then become a contributor in our diversification strategies as well.

We are also making strong progress on the Digitization part of our strategy, moving at speed and scale. In 2021 we implemented PowerSuite applications, our leading cloud-enabled front office technology, in 22 markets. We are also improving efficiency and productivity via progressive moves to global SAAS platforms, shifting more of our data assets to the cloud, and using analytics to enable better insight, predict match and performance more accurately, and drive new value creation.

Lastly, we continue making great progress on Innovation. In Experis, this is notably through our investment in Experis Academy and leading tools, specifically Experis Career Accelerator for our professional consultants. In Manpower it is through MyPath, our innovative global associate upskilling program.

Our DDI strategy also enables us to deliver on our ESG strategies. We believe this to be a clear differentiator as purpose and profit become increasingly interconnected for all organizations. Our MyPath program is a great example of how we are executing this strategy by significantly expanding the countries participating in the program, transforming the working lives of 150,000 individuals so far.

We shared our ESG strategy when we published our Working to Change the World Plan, focused on Planet, People & Prosperity and Principles of Governance, reflecting the International Business Council's Stakeholder Capitalist Metrics which we are already incorporating into our reporting. The recent validation from the Science Based Targets initiative (SBTi) of our ambitious plans to drive positive climate action, is a demonstration of the urgency and speed with which we intend to lead our industry in this space.

We have the talent, brands, technology, and purpose in place to capture fast-evolving opportunities in the market, and to build on the strong foundation of 2021. We are convinced that more companies will turn to us for our expertise in finding, retaining, and reskilling diverse talent to enable them to accelerate their digital transformation and execute their business strategies.

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