ManpowerGroup
Earning Results Call – Prepared Remarks
Q3 2020 CONFERENCE CALL

SLIDE 1 - Jonas Prising

Good morning. Welcome to the third quarter conference call for 2020. On the call with me today is our Chief Financial Officer, Jack McGinnis. For your convenience, we have included our prepared remarks within the Investor Relations section of our website at manpowergroup.com. We will start by going through some of the highlights of the third quarter, then Jack will go through the operating results and the segments, our balance sheet and cash flow, and guidance for the fourth quarter. I will then share some concluding thoughts before we start our Q&A session. 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 includes additional forward-looking statement considerations and important information regarding previous SEC filings and reconciliation of non-GAAP measures.

SLIDE 3 – Jonas Prising

Thanks Jack. Since our last earnings call in July, much has happened in the world and I'm pleased to say we see the early shoots of a global recovery taking hold during the third quarter, and our results reflect a stronger market environment than we anticipated a few months ago.

As a result of the COVID-19 pandemic, we are seeing some of the fastest changes to the global economy with industries like retail, hospitality, and aviation, previously more resilient than others, impacted in ways never seen before. Other industries such as tech, e-commerce and logistics are benefitting from new ways of working and new consumer preferences.

At the same time, job protection initiatives have been implemented worldwide and have helped support jobs, livelihoods and households. Around the world, governments are mindful of the need to bring confidence back while also managing pressures on health and social services. As a result of the learnings from the first waves of the pandemic, we do not anticipate a repeat of the widescale and sudden shutdowns that we saw in the first phase. However, recent increases in COVID-19 cases in many parts of the world will force countries to implement new restrictions to mitigate the spread of COVID-19, this time more targeted and localized than prior lockdowns. These factors will make the recovery uneven and our experienced management team is prepared to confidently manage the volatility as circumstances dictate. In fact, we are leveraging the opportunity in this rapidly changing environment to reaffirm our commitment to our strategy of growth through diversification, digitization, and innovation and are continuing to fund investments in these areas. At the same time, we continue to exercise cost controls and drive further efficiency through restructuring actions. We are also continuing to adjust our geographic footprint. We are proud of our transformative shift during this crisis and are now even more ambitious about the speed of our future transformation given the lessons we have learned during the pandemic.

In the third quarter, revenue was $4.6 billion, down 14.5% year over year in constant currency. On a same day organic basis, our underlying constant currency revenue decreased 15%, a significant improvement from the 27% decline in the second quarter on the same basis.

On a reported basis, we recorded an operating profit for the quarter of $62 million. Excluding restructuring charges and a special item consisting of impacts from divesting select small country operations, operating profit was $117 million, down 38% in constant currency, excluding the prior year special item. Reported operating profit margin was 1.3%, down 280 basis points from the prior year and, after excluding the restructuring and other special items, operating profit margin was 2.6%, down 100 basis points from the prior year.

Reported earnings per diluted share of 18 cents reflects the impact of restructuring charges, the loss on dispositions and a discrete tax item. Excluding the restructuring and other special items, our earnings per diluted share was $1.20 for the quarter representing a decrease of 39% in constant currency.

Based on the many conversations I am having with our clients and insights from our thought leadership and proprietary data I will take a few minutes to share my perspective on what is happening in the labor markets right now and as we look ahead in the near term.

Earlier this year we asked more than 30,000 employers across 40+ countries when they predicted hiring would return to pre-pandemic levels. At that point, most were anticipating a sharp shock and swift return to normal, the V shaped recovery. The same survey we conducted 3 months later shows that 60% now think it will take even longer, towards the end of 2021, the much talked about U shaped recovery.

With our global perspective across industries, we see more of a two-speed recovery – some industries and in-demand roles bouncing back faster than others – like technology, some manufacturing, professional services and construction - while others - including aviation, travel and hospitality impacted for the medium to long term.

For example, we are seeing manufacturing ramp up again yet shipping and ports still causing a lag, and in light manufacturing, especially related to healthcare and PPE products, demand for staff is at a peak. In retail we would be usually expecting the traditional seasonal holiday demand, but with restrictions and shutdowns, retailers are taking a “wait and see” approach to shopper behavior this season. Our logistics clients plan to grow as e-commerce retail growth continues at pace and the demand for cyber security, data analysts and cloud-native software developers is consistently high.

Looking at labor demand, we believe we’ll see a two-speed recovery also here, with the higher skilled workforce recovering quicker than the lower and unskilled workforce, exacerbated by the impact the COVID-19 pandemic has had on some industries that employ lower skilled service workers. We are seeing an accelerated pace of transformation and the trends we have anticipated for some time are happening at a scale and speed we might not have previously thought possible. Clients in all industries are continuing to deal with this current crisis, responding right now to shifting demand and challenging supply chains, together with technology transformation at rates they were not prepared for, all while planning for 2021. We believe employers will look for operational and strategic flexibility in an uneven economic recovery, and that policy makers will be focused on measures encouraging jobs markets to rebound as quickly as possible.

In this current climate especially, we are confident that our strategy of digitization, diversification and innovation is the right one. Our investment to grow Experis, our professional resourcing and IT expertise sets us up for even stronger growth following the pandemic as companies continue to accelerate technology investments.

Talent Solutions - the brand we launched in January combining our higher value, global market-leading offerings - RPO, Right Management and TAPFIN MSP – continues to help clients with customized workforce solutions in this downturn while preparing them for future growth. We are proud of our global leadership in this space – in August our TAPFIN MSP offering was the only company in our industry to be recognized by Everest Group as both a Star Performer and Global Leader in its Contingent Workforce Management Index, scoring highly for vision, strategy and innovation. This impressive accolade also recognizes TAPFIN's analytics platform IntelliReach, part of ManpowerGroup's best-in-class tech stack PowerSuite, which offers advanced data analytics and benchmarking to provide clients with talent attraction, retention and development for both contingent and permanent talent. Our Manpower brand's market leading footprint will enable many organizations to leverage operational and strategic workforce flexibility as they navigate the short- and long-term effects of the pandemic.

We are also continuing to make good progress in our technology roadmap and the scaling at speed of our Top Down and Bottom Up Innovation initiatives.

One of our main innovation initiatives is our MyPath program which is now scaling to 14 markets this year and next across both our Manpower and Experis brands. The data and learnings to date – on how to identify adjacent skills, assess, coach and upskill – have allowed us to shift and reskill people at speed from declining to high demand sectors during this pandemic. We have also upskilled more than 2000 of our own Talent Agents to be expert in assessment and data-driven recruitment and continue to improve on reassignment rates, improved utilization rates and increased satisfaction levels with those clients and candidates that engage in MyPath.

We also continue to invest in our Center of Excellence in People Analytics and Assessment, led by our Chief Talent and Data Scientist and a 40+ strong global innovation team. We are accelerating the deepening, widening and refining of our proprietary data. We know data on its own does not bring value. We also know that our vast access to people – workers, clients and jobs – together with our aggregate data – around interactions, experiences and outputs - combined with our meaningful interpretations are what create the insights and actions that can bring data-driven changes in behavior. This is how we are accelerating our progress around AI-driven recruitment and skilling up, to ensure our recruiters can use data-based decision-making for the best match, to help clients better predict performance and to support our candidates by knowing more about their skills and potential.

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 third quarter came in above our constant currency guidance range. Our gross profit margin also came in above our guidance range. On a reported basis, our operating profit was $62 million. Excluding special items consisting of restructuring charges and a loss on dispositions, our operating profit was $117 million, representing a decline of 37%, or a decline of 38% on a constant currency basis. This resulted in an operating profit margin of 2.6% before restructuring charges and other special items, which was above the high end of our guidance. I will cover the restructuring charges and the dispositions in more detail by segment.

Breaking our revenue trend down into a bit more detail, after adjusting for the positive impact of currency of about 2%, our constant currency revenue declined 14.5%. The impact of acquisitions and billing days were minor resulting in an organic days adjusted revenue decrease of 15%. This represented a significant improvement from the second quarter revenue decline of 27% on a similar basis. This also represents five consecutive months of improvement beginning in May when governments began lifting country-wide lock-down requirements.

SLIDE 4 – Jack McGinnis

On a reported basis, earnings per share was 18 cents, which included the restructuring charges of $50 million which represented a negative 72 cents, certain discrete tax charges of $12 million and a loss from dispositions of $6 million which combined had a 30 cent negative impact. Excluding the restructuring and other special items, earnings per share was $1.20, which exceeded our guidance range. Included within this result was improved operational performance of 47 cents, 3 cents on better than expected foreign currency exchange rates before restructuring and other special items, 4 cents on an improved effective tax rate and 3 cents on improved interest and other expenses.

SLIDE 5 – Jack McGinnis

Looking at our gross profit margin in detail, our gross margin came in at 15.8%. Underlying staffing margin contributed to a 20 basis points reduction and a lower contribution from permanent recruitment contributed to a 30 basis point reduction. This was offset by 20 basis points of increased gross profit margin from career transition growth within Right Management. Other and accrual adjustments include about 20 basis points of favorable direct cost adjustments in France partially offset by decreased margin in our Proservia managed services business.

SLIDE 6 – Jack McGinnis

Next, I'll review our gross profit by business line. During the quarter, the Manpower brand comprised 65% of gross profit, our Experis professional business comprised 20%, and Talent Solutions brand comprised 15%.

During the quarter, our **Manpower** brand reported an organic constant currency gross profit decrease of 17%. This was a significant improvement from the 37% decline in the second quarter.

Gross profit in our **Experis** brand declined 19% year over year during the quarter on an organic constant currency basis which represented a slight improvement from the 20% decline in the second quarter. Although Experis revenues were only down in the very low double digits percentage range during the quarter, the lower contribution from perm gross profit combined with a higher mix shift to enterprise clients and lower utilization of consultants within our Germany IT end user support business drove a more significant gross profit decline.

Talent Solutions includes our global market leading RPO, MSP and Right Management offerings. Organic gross profit growth in the quarter decreased 2% in constant currency year over year which is a significant improvement from the 12% decline in the second quarter. This was primarily driven by our career transition activity within our Right Management business which increased double digit percentages year over year during the quarter and our MSP business which grew mid-single digit percentages while our RPO business improved the rate of revenue decline significantly during the third quarter from the second quarter trend.

SLIDE 7 – Jack McGinnis

Our reported SG&A expense in the quarter was $664 million including the restructuring charges of $50 million and the loss on dispositions of $6 million. Excluding the special items, SG&A of $608 million represented a decrease of $46 million from the prior year after excluding the prior year gain on the China IPO. This underlying decrease was driven by $60 million of operational cost reductions offset by an increase of $12 million from currency changes and $2 million from acquisitions. On an organic constant currency basis, excluding special items, SG&A expenses decreased 9% year over year. SG&A expenses as a percentage of revenue in the quarter represented 13.3%, excluding restructuring and other special items, which continued to reflect the significant deleveraging on the material drop in revenues year over year. As a result of strong cost management actions across all of our businesses, the impact of the revenue and gross profit declines was significantly offset by SG&A decreases.

SLIDE 8 – Jack McGinnis

The **Americas** segment comprised 20% of consolidated revenue. Revenue in the quarter was $929 million, a decrease of 11% in constant currency. Including restructuring costs, OUP equaled $32 million and OUP margin was 3.4%. Excluding restructuring costs, OUP was $48 million and OUP margin was 5.2%. Of the $17 million of restructuring costs, $15 million related to the U.S. primarily representing the closure of real estate as we eliminate fixed costs based on accelerated digitization activities. The balance of the restructuring costs related to Canada and were real estate related.

SLIDE 9 – Jack McGinnis

The **U.S.** is the largest country in the Americas segment, comprising 62% of segment revenues. Revenue in the U.S. was $579 million, representing a decrease of 13% compared to the prior year. Adjusting for billing days and franchise acquisitions, this represented a 16% decrease which is an improvement from the 23% decline in the second quarter.

During the quarter, OUP for our U.S. business decreased 14% to $34 million, excluding restructuring charges. OUP margin was 5.9%, excluding restructuring charges, and reflected the benefit of higher margin career transition activity within Right Management.

Within the **U.S.**, the Manpower brand comprised 33% of gross profit during the quarter. Revenue for the Manpower brand in the U.S. was down 21% when adjusted for days and franchise acquisitions.

The Experis brand in the U.S. comprised 30% of gross profit in the quarter. Within Experis in the U.S., IT skills comprise approximately 80% of revenues. Revenues within our IT vertical within Experis U.S. declined 15% during the quarter and total Experis U.S. revenues declined 16.5% as the Finance and Engineering verticals experienced more significant decreases.

Talent Solutions in the U.S. contributed 37% of gross profit and experienced revenue growth of 7% in the quarter. Within Right Management in the U.S., revenues increased 30% year over year driven by significant career transition activity during the quarter. The U.S. MSP business continues to perform very well in the current environment and again experienced year over year increased revenues during the third quarter. The U.S. RPO business experienced a significant improvement in the rate of revenue decline during the third quarter moving to low double-digit declines in the third quarter and also recently added new RPO clients which we expect will drive further improvement in future periods.

Provided there are no significant reversals of reopening activity across the US, in the fourth quarter we expect ongoing improvement and an overall rate of decline in the US of -8% to -13%.

Our **Mexico** operation experienced a revenue decline of 9% in constant currency in the quarter representing a slight improvement from the 10% decline in the second quarter. The business environment in Mexico continues to be challenging as a result of the COVID-19 crisis.

Revenue in **Canada** declined 10% in constant currency during the quarter. Adjusting for billing days, this represented a 11% decrease which was a further decrease from the second quarter and reflected the exit of certain lower margin enterprise clients during the quarter.

Revenue in the **Other Countries within Americas** declined 6% in constant currency.

SLIDE 10 – Jack McGinnis

Southern Europe revenue comprised 46% of consolidated revenue in the quarter. Revenue in Southern Europe came in at $2.1 billion, a decrease of 15% in constant currency. This is a significant improvement from the second quarter trend driven by France and Italy. OUP including restructuring costs and the loss on dispositions equaled $72 million. Excluding restructuring costs and the loss on dispositions, OUP decreased 30% from the prior year in constant currency and OUP margin was down 90 basis points. The dispositions represent the sale of our Serbia, Slovenia, Bulgaria and Croatia businesses to a franchisee which should be beneficial for the profit margin of the region going forward. Of the $8 million of restructuring costs in the region, just under half relates to Spain for real estate optimization and streamlining of operations, about a quarter relates to Italy for real estate optimization, about 20% relates to Switzerland for real estate optimization and the small remaining balance related to streamlining in other Southern Europe countries.

SLIDE 11 – Jack McGinnis

France revenue comprised 57% of the Southern Europe segment in the quarter and was down 17% from the prior year in constant currency. This reflects a progressive improvement over the course of the quarter. OUP was $51 million in the quarter and OUP margin represented 4.3%. As I mentioned earlier, France benefited from direct cost accrual adjustments in the quarter which improved their OUP by approximately $10 million. Although improvement has been steady in France, the rate of improvement in the revenue trend has slowed in recent weeks. We are cautiously estimating a gradual improvement in the rate of decline for the fourth quarter of between -10% to -15% on a constant currency basis.

Revenue in **Italy** equaled $351 million in the quarter representing a decrease of 12% in constant currency after adjusting for billing days. This reflects a progressive improvement over the course of the quarter. Excluding restructuring charges, OUP declined 29% year over year in constant currency to $17 million and OUP margin decreased 130 basis points to 4.9%. We estimate that Italy will continue to see gradual improvement in the rate of revenue decline during the fourth quarter with a decline within a range of -7% to -12%.

Revenue in **Spain** decreased 6% on a days-adjusted constant currency basis from the prior year in the quarter. This represents a significant improvement from the 13% decrease in the second quarter.

Revenue in **Switzerland** decreased 13% on a days-adjusted constant currency basis from the prior year in the quarter. This represents a significant improvement from the 19% decrease in the second quarter. Our market leading Swiss business has been performing well in a challenging environment.

SLIDE 12 – Jack McGinnis

Our **Northern Europe** segment comprised 21% of consolidated revenue in the quarter. Revenue declined 22% in constant currency to $948 million.

OUP including restructuring costs represented a loss of $23 million. Excluding restructuring costs, OUP was $2 million and OUP margin was 20 basis points. Of the $24 million of restructuring costs, 2/3rds relates to Germany where we have streamlined our operations, notably within our Proservia business, and have taken additional actions to reduce finance and shared services back office costs, about a quarter related to the Netherlands where we have streamlined our operations, and the balance relates to the UK and Sweden where we have also streamlined operations.

SLIDE 13 – Jack McGinnis

Our largest market in the Northern Europe segment is the **U.K.**, which represented 34% of segment revenue in the quarter. During the quarter, U.K. revenues decreased 22% in constant currency which was unchanged from the second quarter trend. We are cautious in our outlook for the UK business and estimate a slight improvement in the rate of revenue decline in the fourth quarter.

In **Germany,** revenues declined 32% on a constant currency adjusted for billing days basis in the third quarter which was unchanged from the second quarter trend. The restructuring actions we took in the third quarter will improve the profitability of this business in future periods. We remain very cautious on our Germany business in the near term and only expect a very slight improvement in the revenue trend in the fourth quarter.

In the **Nordics**, revenues declined 15% on a days-adjusted constant currency basis. The two primary businesses in the Nordics are Norway and Sweden. On a days-adjusted constant currency basis, Norway experienced a decline of 11% and Sweden declined 21%. Both countries experienced a significant improvement in the rate of decline from the second quarter trend.

Revenue in the **Netherlands** decreased 23% in constant currency which represents a very slight improvement from the second quarter trend on a days-adjusted basis.

Belgium experienced a days-adjusted revenue decline of 29% in constant currency during the quarter which reflects significant improvement from the second quarter trend.

Other Markets in Northern Europe had a revenue decrease of 5% in constant currency. This reflects significant improvement from the second quarter.

SLIDE 14 – Jack McGinnis

The **Asia Pacific Middle East** segment comprises 13% of total company revenue. In the quarter, revenue decreased 6% in constant currency to $596 million. The APME region continues to perform relatively well during this crisis. Excluding restructuring charges and prior year gain on the China IPO, OUP margin decreased 90 basis points. All of the $1.5 million of restructuring costs involve Australia where we continue to simplify the business after exiting certain low margin staffing clients.

SLIDE 15 – Jack McGinnis

Revenue growth in **Japan** was up 5% on a constant currency basis and, after adjusting for billing days, this represented a 6% growth rate which was equal to the growth rate in the second quarter. Our Japan business continues to perform very well and we expect a revenue trend of flat to low single digit growth in the fourth quarter.

Revenues in **Australia** declined 7% in constant currency on a days adjusted basis. This represented a significant improvement from the 21% decline in the second quarter as we anniversaried the exiting of certain low margin business.

Revenue in **Other Markets** in Asia Pacific Middle East declined 10% in constant currency.

SLIDE 16 – Jack McGinnis

I'll now turn to cash flow and balance sheet. Free cash flow equaled $685 million for the first nine months of the year. This compared to underlying free cash flow in the prior year of $356 million after excluding the sale of the France CICE receivable. During the third quarter, free cash flow equaled $108 million compared to $206 million in the prior year quarter.

At quarter end, days sales outstanding decreased by about three days. Collection activities continue to be one of our top priorities. Capital expenditures represented $31 million during the first nine months of the year.

We did not purchase any shares of stock during the third quarter and our year to date purchases stand at 871 thousand shares of stock for $64 million. As of September 30th, we have 5.9 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 $1.59 billion and total debt of $1.09 billion, resulting in a net cash position of $500 million. Our debt ratios remain comfortable at quarter-end with total gross debt to trailing twelve months EBITDA of 2.21 and total debt to total capitalization at 29%.

SLIDE 18 – Jack McGinnis

Our debt and credit facilities did not change in the quarter and the earliest Euro note maturity is not until September of 2022. In addition, our revolving credit facility for $600 million remained unused.

SLIDE 19 – Jack McGinnis

Next, I'll review our outlook for the fourth quarter of 2020. Our guidance continues to assume no material lockdowns impacting economic activity 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 $1.06 to $1.14, which includes a favorable impact from foreign currency of three cents per share.

Our constant currency revenue guidance range is between a decline of 10% to a decline of 12%. The mid-point of our constant currency guidance, a decline of 11%, also reflects the organic days-adjusted rate of decline as billing days for Q4 are only very slightly higher year over year and the impact of net dispositions is also very slight. This represents an improvement of about 4% from the organic days adjusted constant currency decline of 15% in the third quarter.

We expect our operating profit margin during the fourth quarter to be down 130 basis points compared to the prior year. This reflects continued strong cost actions but at lower levels of year over year SG&A reductions as activities levels progressively increase.

We expect our income tax rate in the fourth quarter to approximate 39% which continues to reflect an outsized impact of the French Business Tax effect that I discussed in previous quarters. Late September, the government of France issued their preliminary budget for 2021. France is planning to reduce the French Business Tax, known as CVAE, by 50% in 2021. If the budget is approved as drafted, this would improve our pre-crisis level global effective tax rate by 3% to 3.5%. This improvement in the effective tax rate would be partially offset by higher compensation costs attributed to profit sharing schemes in France. Additionally, France has indicated that they will continue with their multi-year corporate tax reform schedule which is expected to separately reduce the France corporate tax rate by about 3% next year and the impact to the consolidated effective tax rate is a reduction between 50 and 75 basis points. I will give a further update on the anticipated impacts from these items at our fourth quarter earnings call after the French budget is formally approved by their government.

As usual, our guidance does not incorporate restructuring charges or additional share repurchases and we estimate our weighted average shares to be 58.6 million.

I will now turn it back to Jonas.

SLIDE 20 – Jonas Prising

Thank you, Jack. We are very well-positioned to leverage the lasting legacy of the pandemic - new work models with more flexible and remote work, more focus on health and wellbeing, greater use of technology and faster changing skill shifts, and the need for strategic and operational workforce transformation, at scale and speed.

Let me also say how incredibly proud I am of the critical work our talented teams have provided by helping people and companies around the world respond and reset following these unprecedented crises. From redeploying and reskilling catering and hospitality workers to new roles in in-demand sectors like logistics, virtual customer service and pharmaceuticals, to redeploying financial programmers to install and program COVID testing robots, and providing the skilled IT talent, lab technicians, and skilled workers for PPE production. We have remained steadfast in our purpose and committed to providing our clients, candidates and our communities around the world with skilled talent and meaningful employment – all with health and safety at the center. And I thank all of our people for their expertise, professionalism and dedication when so many of them are managing their own personal challenges in these unprecedented times.

We can be certain too that helping people adapt from declining industries and jobs to growth sectors and future proof roles will be critical in this next normal. And it will be the responsibility of business, government and educators to support people with swift, targeted upskilling programs so that value creation is shared with the many, not just the few, for the benefit of us all.

At ManpowerGroup we are fully committed to being part of the solution and the actions we are taking to digitize, diversify and innovate will position our company for further success in 2021 and beyond.

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

Operator?