ManpowerGroup
Earnings Results Transcript
Q3 2023 CONFERENCE CALL

SLIDE 1 – Jonas Prising

Welcome to the third quarter conference call for 2023. 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 2023. 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.

I'd like to open by sharing our sadness at the devastating terrorist attacks on Israel and the unfolding conflict. ManpowerGroup has operated in Israel for over 60 years. I have just spoken with our Israeli colleagues this morning to express our heartfelt support and thank them for working tirelessly to help those impacted and still run the day-to-day operations. Amid the suffering that is ongoing, I am in awe of their resilience and dedication to take care of each other, their families our clients and associates during these extremely challenging times.

Turning to the broader environment, in recent weeks I have spent time with our teams and clients in Europe and North America. The topic at the forefront of many of my discussions with clients and business leaders is the global economic outlook – how things are looking now, how they may evolve, and how this is impacting labor markets and their hiring plans. Many echo a sentiment of manageable headwinds in the short term - yet confirm their limited visibility on how this will evolve, which is resulting in increasing cost reduction initiatives, hiring slowdowns and project start postponements.

This sentiment tracks with the trends and data we see as well. Last quarter we shared that broader economic pressures were building particularly in North America and Europe. Over the last few months, we have seen these pressures increase, with declining outputs in global manufacturing; slowing activity in services; and subdued hiring across some industries as companies pause new hiring and spending following a period of bullish hiring and investment post pandemic. Just last week I joined many global CEOs across every sector for the Conference Board Business Council meeting in Denver, where most report ed reduced optimism compared to three months ago and the general consensus was that economic slowing will continue in the short term.

Yet there are bright spots. The business environment in Latin America and Asia Pacific remains solid. And even in the regions most impacted by economic slowing – North America and Europe - consumer spending is holding; employment rates are strong and workers continue to earn more and move up; and core inflation is easing, albeit slowly.

In this uneven and uncertain environment, we saw organizations act the way they have done in past periods of increased uncertainty and economic headwinds: holding on to their existing permanent workforce and pulling back on staffing and permanent recruitment services in North America and Europe.

Moving on to our financial results, in the third quarter, revenue was $4.7 billion, down 5% year over year in constant currency. Our reported EBITA for the quarter was $78 million. Adjusting for restructuring, Argentina hyperinflationary foreign exchange charges and a small loss on sale, EBITA was $117 million, representing a 36% decrease in constant currency year over year. Reported EBITA margin was 1.7%, and adjusted EBITA margin was 2.5%. Earnings per diluted share was $0.60 on a reported basis and $1.38 on an adjusted basis. Adjusted earnings per share were down 39% year-over-year in constant currency.

Although the timing of a recovery is always hard to predict – decades of experience tell us that we must adjust to the existing reality while being ready to pivot quickly when the situation improves. Our industry is at the leading edge – by

this we mean it is often the first to feel the impact going into an economic downturn, and the first to benefit from improving outlooks on the other side.

Though today we are clearly in a slowing environment, labor markets overall are holding steady and transformation agendas continue, though at a more moderate pace. Companies are reluctant to reduce their workforce or pause on initiatives to upskill and develop their people and we see this evidenced in the demand for Experis Academy and Manpower MyPath offerings which help people learn in-demand skills at scale and speed.

In uncertain times people and companies need trusted partners to show them a path to navigate the uncertainty. Our value proposition to clients and candidates has never been more relevant, and our business model helps them absorb some of the pressures they are feeling today, and prepare to accelerate out of the downturn once the economic recovery begins again. Employers value the insight and data-led guidance on developing and executing an agile workforce strategy. We remain confident that our clear plan to profitably grow the business by diversifying, digitizing and innovating is how we help our clients and candidates prepare for the future and be competitive for the long-term, while managing the headwinds today.

With that, over to Jack to take you through the financials.

SLIDE 3 – Jack McGinnis

Thanks, Jonas.

Revenues in the third quarter came in at the midpoint of our constant currency guidance range. Gross profit margin came in above our guidance range. As adjusted, EBITA was $117 million, representing a 36% decrease in constant currency compared to the prior year period. As adjusted, EBITA margin was 2.5% and came in at the midpoint of our guidance range, representing 120 basis points of decline year over year.

During the quarter, year over year foreign currency movements had an impact on our results. Foreign currency translation drove about a three percent favorable impact to the U.S. dollar reported revenue trend compared to the constant currency decrease of 5%. Organic days-adjusted revenue decreased 4% in the quarter.

SLIDE 4 – Jack McGinnis

Turning to the EPS bridge, reported earnings per share was $0.60 which included $0.78 of charges related to restructuring, a non-cash foreign currency loss related to the translation of our hyperinflationary Argentina business and a small loss on sale of our Philippines business. Argentina is required to be treated as a hyperinflationary economy and the non-cash currency translation losses reflect the devaluation of the Argentine peso during the quarter. This is a non-cash accounting charge as our Argentina business operates in their local currency.

Excluding these charges, adjusted EPS was $1.38. Walking from our guidance mid-point, our results included a slightly better operational performance of 1 cent, a lower weighted average share count due to share repurchases in the quarter which had a positive impact of 1 cent, a lower effective tax rate which had a positive impact of 2 cents, a foreign currency impact that was 4 cents worse than our guidance due to the weakening of the Euro and the pound during the second half of the quarter, and interest and other expenses which had a positive 1 cent 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 a revenue decline of 3%, the Experis brand declined by 10%, and the Talent Solutions brand declined by 14%. The Experis decline represented lower activity from both enterprise and convenience customer segments. Demand from enterprise technology clients continued to be weak. Within Talent Solutions we saw a significant year-over-year revenue decline in RPO as well as an expected sequential softening of activity from the second quarter. Our MSP business saw revenue declines in the quarter as we reduced certain lower margin activity, while Right Management experienced significant year over year revenue growth on higher outplacement volumes in the quarter, with revenue levels fairly steady from the second quarter.

SLIDE 6 – Jack McGinnis

Looking at our gross profit margin in detail, our gross margin came in at 17.6%. Staffing margin contributed a 10 basis point reduction due to mix shifts as pricing remained strong. Permanent recruitment, including Talent Solutions RPO, contributed a 70 basis point GP margin reduction as permanent hiring demand continued to soften. Right Management career transition within Talent Solutions contributed 30 basis points of improvement as outplacement activity reflected

strong year-over-year growth with gross profit steady from the second quarter level. Other items resulted in a 20 basis point margin decrease.

SLIDE 7 – 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 25%, and Talent Solutions comprised 16%.

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

Our **Manpower** brand reported an organic gross profit decrease of 5% in constant currency year over year.

Organic gross profit in our **Experis** brand decreased 14% in constant currency year over year. Permanent recruitment and other services within Experis drove the higher rate of overall GP decrease for the brand.

Organic gross profit in **Talent Solutions** decreased 15% in constant currency year over year. This was mainly driven by declines in RPO as permanent recruitment continued to weaken during the quarter. This was partially offset by Right Management on increased outplacement activity. MSP experienced a very slight decrease in gross profit in the quarter.

SLIDE 8 – Jack McGinnis

Reported SG&A expense in the quarter was $752 million. Excluding restructuring costs, SG&A decreased 2.2% year over year on an organic constant currency basis, representing a sequential decrease from the flat level in the second quarter on this same basis. This reflects significant cost actions during the quarter resulting in a quarterly headcount reduction of 4% sequentially and a reduction of 7% year-over-year which will result in further cost reductions into the fourth quarter. At the same time, we continue to invest in transformation programs included in corporate expense. These are strategic investments, expected to drive medium and long term productivity and efficiency enhancements across our technology and finance functions worldwide. The underlying SG&A decreases largely consisted of operational costs of $16 million offset by currency changes of $19 million. Adjusted SG&A expenses as a percentage of revenue represented 15.3% in constant currency in the third quarter reflecting lowered operational leverage on the revenue decline. Restructuring costs totaled $38 million.

SLIDE 9 – Jack McGinnis

The **Americas** segment comprised 24% of consolidated revenue. Revenue in the quarter was $1.1 billion, representing a decrease of 7% compared to the prior year period on a constant currency basis. Reported OUP was $38 million and includes $6 million of restructuring costs. As adjusted, OUP was $44 million and OUP margin was 4.0%. The majority of the restructuring costs related to North America with the balance recorded in Latin America.

SLIDE 10 – Jack McGinnis

The **U.S.** is the largest country in the Americas segment, comprising 68% of segment revenues. Revenue in the U.S. was $753 million during the quarter, representing an 14% days-adjusted decrease compared to the prior year.

As adjusted to exclude restructuring costs, OUP for our U.S. business was $29 million in the quarter representing a decrease of 52% from the prior year. As adjusted, OUP margin was 3.8%.

Within the **U.S.,** the Manpower brand comprised 25% of gross profit during the quarter. Revenue for the Manpower brand in the U.S. decreased 16% on a days-adjusted basis during the quarter, representing an improvement from the 19% decrease 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. On a days-adjusted basis, Experis U.S. revenue decreased 15% as we anniversaried significant 2022 organic growth of 16%. As referenced earlier, the year ago period reflected significant growth from enterprise clients who have had weak demand in the current year.

Talent Solutions in the U.S. contributed 29% of gross profit and experienced revenue decline of 18% in the quarter. This was driven by a decrease in RPO revenues in the U.S. as permanent hiring programs continued at lower levels in the third quarter. The U.S. MSP business saw revenue decline as we reduced some lower margin activity, while outplacement activity within our Right Management business drove strong revenue increases. In the U.S., RPO, MSP and Right Management all experienced relatively steady revenue levels from the second quarter.

In the fourth quarter of 2023, for our U.S. businesses overall we expect a slightly improved rate of year over year decline in revenues as compared to the third quarter.

SLIDE 11 – Jack McGinnis

Southern Europe revenue comprised 45% of consolidated revenue in the quarter. Revenue in Southern Europe came in at $2.1 billion, representing a 3% decrease in organic constant currency. Reported OUP was $84 million and includes $4 million of restructuring costs. As adjusted, OUP was $88 million and OUP margin was 4.2%. The majority of the restructuring charges related to reductions in the Southern Europe Regional Head Office team.

SLIDE 12 – Jack McGinnis

France revenue comprised 57% of the Southern Europe segment and revenue equaled $1.2 billion in the quarter, down 2% on a days-adjusted constant currency basis. After adjusting for modest restructuring charges, adjusted OUP for our France business was $49 million in the quarter representing a decrease of 20% in constant currency. Adjusted OUP margin was 4.0%.

We are estimating the year over year constant currency revenue trend in the fourth quarter for France to represent a modest further decline from the third quarter trend based on October activity to date.

Revenue in **Italy** equaled $414 million in the quarter and was down 2% on a days-adjusted constant currency basis. OUP equaled $27 million and OUP margin was 6.5%. We expect a similar rate of constant currency revenue decline in the fourth quarter compared to the third quarter.

SLIDE 13 – Jack McGinnis

Our **Northern Europe** segment comprised 19% of consolidated revenue in the quarter. Revenue of $914 million represented a 10% decline in constant currency. After excluding restructuring costs of $28 million, adjusted OUP was negative $3 million and OUP margin was negative 0.4%. The restructuring charges represented $15M in Germany, largely related to head office rightsizing and related activities in view of the ongoing Proservia wind down, $7M in the Nordics mainly related to workforce optimization within the businesses, and modest additional charges in the UK, the Netherlands and Belgium.

SLIDE 14 – Jack McGinnis

Our largest market in the Northern Europe segment is the **U.K.**, which represented 35% of segment revenues in the quarter. During the quarter, U.K. revenues decreased 15% on a days-adjusted constant currency basis. This reflects an additional decline from the 12% decrease in the second quarter on this same basis. We expect a similar rate of constant currency revenue decline in the fourth quarter compared to the third quarter.

In **Germany,** revenues increased 4% in days-adjusted constant currency in the quarter, representing three consecutive quarters of growth driven by our Manpower business, particularly due to strength in the automotive sector. The previously announced wind down of our Proservia managed services business in Germany is advancing with significant progress with the workers councils and impacted clients during the quarter. We are tracking to conclude all wind down related actions by the end of the year with some remaining transition activity concluding through the first half of 2024 which we will carve out separately. We anticipate additional restructuring charges related to the wind down in the fourth quarter and will provide a further update when we announce our fourth quarter earnings. The Proservia business has been a significant drag on our Germany operations and the completion of the wind-down activity will improve profitability going forward. Overall, in the fourth quarter we are expecting a slightly lower rate of constant currency revenue growth compared to the third quarter trend.

In the **Netherlands,** revenue decreased 5% on a days-adjusted constant currency basis and this represented a slightly improved rate of decline from the second quarter on this same basis.

SLIDE 15 – Jack McGinnis

The **Asia Pacific Middle East** segment comprises 12% of total company revenue. In the quarter, revenue was down 2% in constant currency to $565 million. After excluding modest restructuring costs related to our Australia business, adjusted OUP was $25 million and OUP margin was 4.4%.

SLIDE 16 – Jack McGinnis

Our largest market in the APME segment is **Japan**, which represented 49% of segment revenues in the quarter. Revenue in **Japan** grew 10% in days-adjusted constant currency. We remain very pleased with the consistent performance of our

Japan business, and we expect continued strong revenue growth in the fourth quarter.

We also completed the sale of our Philippines business during the quarter which transitions into a Manpower franchise going forward.

SLIDE 17 – Jack McGinnis

I'll now turn to cash flow and balance sheet. In the third quarter, free cash flow represented $245 million compared to $254 million in the prior year.

At the end of the third quarter, days sales outstanding were flat at 59 days. During the third quarter, capital expenditures represented $21 million.

During the third quarter we repurchased 636,000 shares of stock for $50 million. As of September 30th, we have 293,000 shares remaining for repurchase under the share program approved in August of 2021 and an additional 5 million shares remaining for repurchase under the share program approved in August of 2023.

SLIDE 18 – Jack McGinnis

Our balance sheet ended the quarter with cash of $571 million and total debt of $962 million. Net debt equaled $391 million at quarter-end. Our debt ratios at quarter-end reflect total adjusted gross debt to trailing twelve months Adjusted EBITDA of 1.41 and total debt to total capitalization at 29%.

SLIDE 19 – Jack McGinnis

Our debt and credit facilities remained unchanged during the quarter.

SLIDE 20 – Jack McGinnis

Next, I'll review our outlook for the fourth quarter of 2023. Based on trends in the third quarter and October activity to date, our forecast is cautious and anticipates that the fourth quarter will continue to be challenging with further declines in our Manpower businesses in Europe. Our forecast also anticipates a significant reduction in activity in our Israel business due to the current conflict. Our forecast also anticipates ongoing slowing of permanent recruitment activity and further offsets by cost actions being taken. We are forecasting underlying earnings per share for the fourth quarter to be in the range of $1.17 to $1.27, which

includes an unfavorable foreign currency impact of 1 cent per share. We have disclosed our foreign currency translation rate estimates at the bottom of the guidance slide.

Our constant currency revenue guidance range is between a decrease of 4% and 8% and at the midpoint represents a 6% decrease. The impact of net dispositions and less working days contributes to an organic days-adjusted constant currency revenue trend of about a 5.5% decrease at the mid-point. This represents an additional 1% decrease from the third quarter trend, ignoring rounding, on this same basis.

We expect our EBITA margin during the fourth quarter to be down 110 basis points at the midpoint compared to the prior year.

We estimate that the effective tax rate for the fourth quarter will be 32.5% which reflects the mix effect of lower earnings from lower tax geographies in the current environment with minimal expected offsetting tax items. Compared to our previous estimate of a 30% tax rate before the worsening conditions, this update represents a 5-cent reduction in our fourth quarter EPS. When business in our lower rate geographies begins to improve, the tax rate will begin to return to the lower rate. As we consider other tax related matters for 2024, I wanted to provide a brief update on the reduction of the French business tax, known as "CVAE," based on recent developments. Previously, the French government had announced their intention to fully abolish the remaining component of the French business tax in 2024. The preliminary French budget was publicized in late September and instead announced that the remaining component of the French business tax would now be abolished on a pro-rata basis over the next four years. As a result, the additional 1.5% improvement in our global effective tax rate from the abolishment of CVAE will be spread over the next four years with an anticipated reduction of about 35 basis points in 2024. We will continue to monitor any developments on the France budget as it is reviewed by the parliament through year-end.

As usual, our guidance does not incorporate restructuring charges or additional share repurchases and we estimate our weighted average shares to be 49.9 million. As I mentioned, we do expect to have additional restructuring charges associated with the wind down of our Proservia managed services business in Germany and we will disclose those and any additional restructuring charges separately when we report our fourth quarter earnings. Our guidance also does not include the impact of the non-cash currency translation adjustment for our hyperinflationary Argentina business and we will also report that separately. I will now turn it back to Jonas.

SLIDE 21 – Jonas Prising

Thanks Jack.

On our last call I shared that we are adapting to the current market environment and will not shy away from taking decisive actions that deliver on our strategy to simplify our operations and maximize return on our investments.

In the third quarter we continued to execute against this plan. Our experienced leadership team is using a fine-point pen versus a broad brush to manage costs and invest for growth and we are confident that our actions will preserve margin in the current environment ready for the rebound when it occurs and be more efficient in the long term.

We have been executing a transformation agenda in support of our Diversification, Digitization and Innovation strategy for several years. We are now doubling down on centralized systems and global standardized processes to drive economic benefit across our Finance and Global Technology functions. By leveraging leading global platforms and driving their adoption, we will enable country teams to focus on strategic and operational decision-making so we can execute in the market at speed and increase market share. We are excited about the opportunity to leverage our global IT and Finance infrastructure to automate non-value-added tasks to drive recruiter productivity and generate valuable client and candidate insights.

Our Diversification plan is how we accelerate growth of higher margin business across all our brands. For Manpower, this means building loyalty with skilled candidates so we can deliver best in class talent in both permanent and temporary staffing in labor markets we believe will structurally be more constrained due to demographics and shifting skills needs. Our own research and data tell us that people want to work for companies they trust and believe in, and who will guide them to move up and earn more.

SLIDE 22 – Jonas Prising

I am delighted that our new Manpower campaign “huManpower” launches in many of our key markets this week – strengthening our positioning for candidates as an employer of choice with the data, expertise and talented teams to guide them to achieve their potential as they progress their career journey. Our message to workers is clear – Manpower values you, we are committed to your development - and we are by your side to build your skills and offer great career opportunities.

This campaign is just one example of our role in preparing people for a future of work and one that is also more green and more digital. The global green energy transition creates demand for millions of skilled workers to fill new roles in renewable energy, electrification, battery technology, hydrogen and more. We are committed to preparing people for these new opportunities and recently announced our partnership with Innoenergy and the European Battery Alliance to upskill as many as 800,000 workers for jobs in the green battery value chain by 2025.

Our reputation as strategic partners to guide companies through transformation is recognized by industry analysts too. Experis has been named a Leader and Star Performer in Everest Group's PEAK Matrix assessment of U.S. contingent staffing services scoring highly for its AI enabled capabilities in IT staffing, project solutions, and managed services. And our Manpower brand has been recognized in the UK as a leader in Contingent Talent and Strategic Solutions, scoring highly for its strong emphasis on associate experience and investment in upskilling and reskilling services, including our MyPath program, associate academies and candidate facing mobile app.

Employers now understand that there is no path to growth without people and the ability to hire, train and develop human capital is critical to success on every time horizon.

I would like to close by thanking our teams around the world for their engagement and contributions, which is how we are able to consistently deliver to our clients, our people, our partners and our communities.

I would now like to open the line for Q & A, operator?