ManpowerGroup
Earnings Results Transcript
Q1 2024 CONFERENCE CALL

SLIDE 1 – Jonas Prising

Welcome and thank you for joining us for our first quarter 2024 conference call. 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 first quarter, then Jack will go through results and guidance in more detail. 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.

Last quarter, we stated that though the economy remains resilient in many markets, uncertainty around the outlook persists, leading employers to be cautious in their hiring, pausing non-critical spend and deferring projects until more clarity emerges.

One quarter in – we see a continuation of this trend. Labor markets are cooling in North America and Europe yet remain strong. In our most recent ManpowerGroup Employment Outlook Survey, employers reported increased caution in their hiring due to economic uncertainty. At the same time, as they look beyond the current period of economic uncertainty, business leaders feel optimistic about the future, and they are clear that skilled talent is the cornerstone to success and are holding on to their existing workforces today. That's how demand remains strong for some skilled workers and talent shortages persist, despite a cooling broader environment.

Our industry remains on the leading edge of labor market trends – and the impact of the softening environment has been felt here first. Demand for temporary staffing has been running at lower levels in most markets in North America and Europe. We have, however, seen continued stabilization in various key markets, most notably in the U.S., the U.K., but now also in some other European markets, albeit at low levels. Permanent recruitment activity also continues to trend at stable levels over the last three quarters. With that said, although stabilization is often an encouraging first step towards growth, at this point it is still too early to call out an inflection in improving demand.

We continue to navigate the current environment with agility and dexterity — driving increased sales activities to generate demand and maintaining focus on strategic initiatives that position us to capture growth and greater productivity when market conditions improve.

Turning to our financial results, in the first quarter revenue was $4.4 billion, down 5% year over year in constant currency, or down 6% as adjusted. Our reported EBITA for the first quarter was $74 million. Adjusting for our run-off Proservia business in Germany and a minor loss for Argentina related currency translated losses, EBITA was $80 million, representing a decrease of 38% in constant currency year over year. Reported EBITA margin was 1.7%, and adjusted EBITA margin was 1.8%. Earnings per diluted share was $0.81 on a reported basis, while earnings per diluted share was $0.94 on an adjusted basis. Adjusted earnings per share decreased 39% year over year in constant currency.

In the first quarter, I spent time with our teams in Europe, Asia Pacific, Latin America and North America. The global labor market is diverse, and disparities exist across regions, industries and demographic groups. While some sectors have experienced job losses and economic downturns, others have seen growth and expansion and this corresponds with the shifts we're seeing: demand in Latin America and Asia Pacific remains solid, while in North America and Europe we continue to see subdued demand for resourcing and, except for outplacement, workforce solutions. At the same time, we expect the digital transformation across industries, the rise of AI and the strength of the green transition will create new opportunities as demand for specialist talent grows. Amid these shifts, the ability to build a workforce that can adapt at pace as transformation accelerates is critical and we believe ManpowerGroup has a big role to play in filling these needs for our clients in the future.

I will now turn it over to Jack to take you through the results in more detail.

SLIDE 3 – Jack McGinnis

Thanks, Jonas.

Revenues in the first quarter came in at the mid-point of our constant currency guidance range. As adjusted, gross profit margin came in above our guidance range and was at the mid-point of our range on a reported basis. As adjusted, EBITA was $80 million, representing a 38% decrease in constant currency compared to the prior year period. As adjusted, EBITA margin was 1.8% and came in at the mid-point of our guidance range, representing 100 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 a two percent unfavorable impact to the U.S. dollar reported revenue trend compared to the constant currency decrease of 5%, or 6% as adjusted. Organic days-adjusted constant currency revenue decreased 4% in the quarter, slightly better than our guidance.

SLIDE 4 – Jack McGinnis

Turning to the EPS bridge on slide 4, reported net earnings per share was $0.81 which included $0.13 related to the run-off of our Proservia managed services business in Germany and a minor non-cash foreign currency loss related to the translation of our hyperinflationary Argentina business. Excluding these items, adjusted EPS was $0.94. Walking from our guidance mid-point, our results included a stronger operational performance of 1 cent, lower weighted average shares due to share repurchases in the quarter which had a positive impact of 1 cent, a foreign currency impact that was 2 cents worse than our guidance, a tax rate which had a positive impact of 4 cents and interest and other expenses had a negative impact of 3 cents.

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 declined by 3% in the quarter, the Experis brand declined by 11%, and the Talent Solutions brand had a revenue decline of 11%. Within Talent Solutions, our RPO business experienced a year-over-year revenue decline in-line with the trend from the fourth quarter. Our MSP business revenues were basically flat compared to the prior year period reflecting sequential improvement from the fourth quarter, while Right Management experienced solid year-over-year revenue growth on higher outplacement volumes in the quarter.

SLIDE 6 – Jack McGinnis

Looking at our gross profit margin in detail, our gross margin came in at 17.5% for the quarter after adjusting for the run-off of our Germany Proservia business. Staffing margin contributed a 50 basis point reduction due to mix shifts and lower volumes while pricing remained solid. Permanent recruitment, including Talent Solutions RPO, contributed a 50 basis point GP margin reduction as permanent hiring activity in the first quarter remained stable at lower levels consistent with recent quarter trends. Right Management career transition within Talent Solutions contributed 20 basis points of improvement as outplacement activity continued to be solid in the first quarter. Other items resulted in a 10 basis point margin increase.

SLIDE 7 – Jack McGinnis

Moving onto our gross profit by business line. During the quarter, the Manpower brand comprised 58% of gross profit, our Experis professional business comprised 25%, and Talent Solutions comprised 17%.

During the quarter, our consolidated gross profit decreased by 9% on an organic constant currency basis year over year, representing a slight decrease from the 8% decrease in the fourth quarter.

Our **Manpower** brand reported an organic gross profit decrease of 6% in constant currency year over year, representing a mix related additional decline from the 4% decline in the fourth quarter.

Gross profit in our **Experis** brand decreased 16% in organic constant currency year over year, representing a slight additional decline from the 15% decrease in the fourth quarter, driven by continental Europe.

Gross profit in **Talent Solutions** decreased 11% in organic constant currency year over year, representing an improved sequential trend from the 14% decline in the fourth quarter. Although RPO volumes were relatively stable from the fourth quarter, the year-over-year GP decrease improved slightly. MSP experienced an improved GP trend from the fourth quarter while Right Management continued to experience solid outplacement activity.

SLIDE 8 – Jack McGinnis

Reported SG&A expense in the quarter was $698 million. Excluding the run-off of our Germany Proservia business, SG&A was 5% lower year over year on a constant currency basis representing a further decrease from the 4% decline in the fourth quarter on an adjusted basis. This reflects organic headcount reductions of 10% year over year. Our digitization strategy focused on transforming back-office functions will drive further cost efficiencies and our corporate expenses reflect this investment. These strategic investments are progressing nicely and are expected to drive medium- and long-term productivity and efficiency enhancements across our technology and finance functions worldwide through shared service centers leveraging leading global technology platforms. The underlying year-over-year SG&A decreases largely consisted of operational costs of $32 million and currency changes of $9 million. Adjusted SG&A expenses as a percentage of revenue represented 15.7% in constant currency in the first quarter. The Proservia Germany run-off expense represented $2 million. I'm pleased to note there were no restructuring charges during the quarter.

SLIDE 9 – Jack McGinnis

The **Americas** segment comprised 23% of consolidated revenue. Revenue in the quarter was $1.0 billion, representing a decrease of 1% compared to the prior year period on a constant currency basis. OUP was $26 million and OUP margin was 2.5%.

SLIDE 10 – Jack McGinnis

The **U.S.** is the largest country in the Americas segment, comprising 66% of segment revenues. Revenue in the U.S. was $680 million during the quarter, representing an 8% days-adjusted decrease compared to the prior year.

OUP for our U.S. business was $12 million in the quarter representing a decrease of 61% after adjusting the prior year for minor restructuring costs. OUP margin was 1.8%.

Within the **U.S.,** the Manpower brand comprised 22% of gross profit during the quarter. Revenue for the Manpower brand in the U.S. decreased 13% during the quarter, which was stable from the decrease in the fourth quarter.

The Experis brand in the U.S. comprised 45% of gross profit in the quarter. Within Experis in the U.S., IT skills comprised approximately 90% of revenues. Experis U.S. revenue decreased 6% during the quarter, an improvement from the 13% decline in the fourth quarter and reflects increased short duration healthcare IT project activity and other items benefiting the first quarter.

Talent Solutions in the U.S. contributed 33% of gross profit and experienced revenue decline of 2% in the quarter, an improvement from the

14% decline in the fourth quarter. RPO revenue declines in the U.S. reflect relatively stable level of permanent hiring programs in the first quarter compared to the fourth quarter. The U.S. MSP business saw a slight revenue decline representing an improvement from the fourth quarter, while outplacement activity within our Right Management business drove strong year over year revenue increases.

In the second quarter of 2024, we expect a slightly improved revenue decline for our overall U.S. business, as compared to the first quarter decline as we continue to anniversary the more significant pull back in demand in the year ago period.

SLIDE 11 – Jack McGinnis

Southern Europe revenue comprised 45% of consolidated revenue in the quarter. Revenue in Southern Europe was $2.0 billion, representing a 5% decrease in constant currency. OUP for our Southern Europe business was $70 million in the quarter and OUP margin was 3.5%.

SLIDE 12 – Jack McGinnis

France revenue comprised 56% of the Southern Europe segment in the quarter and decreased 5% in days-adjusted constant currency. OUP for our France business was $33 million in the quarter representing a decrease of 27% on a constant currency basis. OUP margin was 3.0%.

Activity to date in April 2024 is consistent with trends experienced in the first quarter. We are estimating the year over year constant currency revenue trend in the second quarter for France to be consistent with the first quarter trend.

Revenue in **Italy** equaled $404 million in the first quarter reflecting a decrease of 6% on a days-adjusted constant currency basis. OUP equaled $27 million and OUP margin was 6.8%. We estimate that Italy will also have a slightly improved revenue trend in the second quarter compared to the first quarter in constant currency.

SLIDE 13 – Jack McGinnis

Our **Northern Europe** segment comprised 20% of consolidated revenue in the quarter. Revenue of $870 million represented a 12% decline in constant currency. As adjusted to exclude the run-off Proservia Germany business, OUP was $6 million and OUP margin was 0.7%.

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 13% on a days-adjusted constant currency basis. This reflects a stable trend from the rate of decline from the fourth quarter on this same basis. We estimate a similar year-over-year revenue trend in the second quarter compared to the first quarter.

In **Germany,** adjusted revenues decreased 8% in days-adjusted constant currency in the quarter. As previously reported, the wind down of our Proservia managed services business in Germany was substantially completed in the previous quarter and the final run-off of client activity will be completed in the second quarter of 2024. In the second quarter, we are expecting a slightly increased year-over-year revenue decline compared to the first quarter.

SLIDE 15 – Jack McGinnis

The **Asia Pacific Middle East** segment comprises 12% of total company revenue. In the quarter, revenues equaled $535 million representing a decrease of 4% in organic constant currency. OUP was $20 million and OUP margin was 3.7%.

SLIDE 16 – Jack McGinnis

Our largest market in the APME segment is **Japan**, which represented 51% of segment revenues in the quarter. Revenue in **Japan** grew 10% on a days-adjusted constant currency basis. We remain very pleased with the consistent performance of our Japan business, and we expect continued strong revenue growth in the second quarter.

SLIDE 17 – Jack McGinnis

I'll now turn to cash flow and balance sheet. In the first quarter, free cash flow was strong and represented $104 million during the quarter and compares to $111 million in the prior year.

At quarter end, days sales outstanding decreased about a day and a half to 55 days. During the first quarter, capital expenditures represented $12 million. During the first quarter we repurchased 665,000 shares of stock for $50 million. As of March 31st, we have 3.9 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 $605 million and total debt of $985 million. Net debt equaled $380 million at quarter-end. Our debt ratios at quarter-end reflect total gross debt to trailing twelve months Adjusted EBITDA of 1.98 and total debt to total capitalization at 31%. Our debt and credit facilities remained unchanged during the quarter as displayed in the appendix of the presentation.

SLIDE 19 – Jack McGinnis

Next, I'll review our outlook for the second quarter of 2024. Based on trends in the first quarter and April activity to date, our forecast anticipates that the second quarter will continue to be challenging in North America and Europe. Our forecast for Q2 also anticipates ongoing stable but low levels of permanent recruitment activity. With that said, we are forecasting earnings per share for the second quarter to be in the range of $1.24 to $1.34, which excludes a forecasted unfavorable impact of 8 cents related to the final quarter impact of the run-off of the Proservia Germany business. The guidance range also includes an unfavorable foreign currency impact of 7 cents per share and our foreign currency translation rate estimates are disclosed at the bottom of the guidance slide which includes the Argentine Peso which is impactful.

Our constant currency revenue guidance range is between a decrease of 2% and 6% and at the midpoint is a 4% decrease. Although the impact of net dispositions is minor there are slightly more working days in the second quarter this year contributing to about a half of a percentage additional decrease on an organic days-adjusted constant currency basis and this still rounds to a 4% decrease at the mid-point. This represents a similar rate of decrease compared to the first quarter trend on this same basis.

Excluding the Germany Proservia run-off business impact on the second quarter of 2024, Adjusted EBITA margin is projected to be down 20 basis points at the midpoint compared to the prior year.

We estimate that the effective tax rate for the second quarter will be 32.5% on an adjusted basis which reflects the overall mix effect of lower earnings from lower tax geographies in the current environment.

As usual, our guidance does not incorporate restructuring charges or additional share repurchases and we estimate our weighted average shares to be 48.7 million. Our guidance also does not include the impact of the non-cash hyperinflationary balance sheet related currency translation adjustment for our Argentina business and we will report that separately. I will now turn it back to Jonas.

SLIDE 20 – Jonas Prising

Thanks Jack.

History shows that investing in operational improvements during economic uncertainty can lead to greater resilience and faster growth in more favorable conditions. Though the external environment remains dynamic, our commitment to digital transformation and executing our Diversification, Digitization and Innovation strategy remains steadfast.

The continued diversification of our services and product offerings and our global footprint has enabled us to capture new opportunities to help offset softening demand in certain regions and verticals. In Q1 our Experis business saw increased demand in Healthcare IT in the U.S. and our Manpower business saw solid demand in automotive and transportation in various European markets. In Talent Solutions, our career transition business in Right Management performed well while our TAPFIN MSP business delivered improved trends from the prior quarter.

In our Manpower business, clients continue to focus on hiring specialist skills at the intersection of technology and production. We are well equipped to meet this growing need. Through our Manpower MyPath program, our Experis Academies, and our worldwide network of dedicated Talent Agents and recruiters, we mentor, coach and guide hundreds of thousands of people to upskill and move up in their careers. In my recent travels, I saw those dynamics play out in a very tight labor market like Japan, where the value of our upskilling services is a very important part of our value creation for our client companies and our ability to attract talent to the opportunities in the market.

On digitization, we continue to make good progress in our technology roadmap and are proud to lead the industry through the deployment of PowerSuite®, our global cloud-based platforms for front and back office. In the first quarter, we reached a significant milestone with the opening of our Global Business Services center in Porto, Portugal, our regional finance center to serve all of Europe and a central component of our global strategy to standardize, centralize and transform finance service delivery. This follows our successful mature finance shared service center in Mexico City serving Latin America.

For 75 years, ManpowerGroup has been committed to doing business the right way for our people, our clients, and the communities in which we operate. We know these high standards are valued by all who work with us.

As AI advances we are guided by our people-first approach. We have established a multi-functional Ethical AI Committee that helps us stay in front of AI-related risks while enabling us to innovate and pilot new approaches that create value for our people and our clients.

In March, our ethical leadership was once again recognized by Ethisphere as we were named a World's Most Ethical Company for the 15th time. I'd like to thank our teams around the world who live our standards, create value for our clients and candidates, and help propel our strong ethical culture each day.

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