ManpowerGroup
Earnings Results Transcript
Q1 2022 CONFERENCE CALL

SLIDE 1 – Jonas Prising

Welcome to the first quarter conference call for 2022. 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 first quarter results and guidance for the second 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 and the Russia-Ukraine War, 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

On our previous earnings call the world was truly a different place. We could not have imagined the tragic events that would unfold in Ukraine. Let me be clear on ManpowerGroup's position – we stand with Ukraine; we support the people of Ukraine and we are committed to support refugees from Ukraine, as we have previously done with refugees elsewhere. I will talk more about this later in the call.

Turning to our financial results, in the first quarter revenue was $5.1 billion, up 10% year over year in constant currency, or 6% in organic constant currency. Our EBITA for the quarter was $148 million. Adjusting for the U.S. acquisition integration costs and a loss on our previously announced disposition of our Russia business, EBITA was $162 million, reflecting growth of 64% in constant currency year over year. Reported EBITA margin was 2.9%, and adjusted EBITA margin was 3.1% which was above the adjusted EBITA margin from the first quarter of 2019. Our U.S. business demonstrated exceptional performance during the quarter and was a major driver of our significant year over year improvement. Earnings per diluted share was $1.68 on a reported basis and $1.88 on an adjusted basis. Adjusted earnings per share increased 78% year over year in constant currency.

Although geopolitical uncertainty has increased, we continue to see strong hiring intentions in most of our major markets in Europe as well as globally. In this environment, our clients need us more than ever to provide them with the strategic and operational flexibility to transform and be successful, and to find workers of various skill levels in very tight labor markets.

The pandemic effects are still noticeable in many markets, where supply side issues have led to pent up demand and with that, continued need for workers. As a result, we see requests for skilled workers at record highs, especially in IT, finance and manufacturing operations. In select industries, there has been some additional disruption due to the Ukraine crisis, particularly in the automotive supply chain but overall, talent shortages remain a significant challenge for our clients, which benefits our brands and portfolio of services and solutions.

We continue to execute our DDI strategy – our initiatives to Diversify, Digitize and Innovate. On Diversification - our Experis IT resourcing, Talent Solutions and Manpower permanent recruitment businesses had a very strong quarter, improving our business mix, and expanding the contribution of higher growth and higher value services, strengthening our gross profit.

On Digitization we continue to execute our technology agenda adding more value to our client and candidate experience. And as part of our Innovation plans and our B2C strategy, we continue to scale our skilled talent pool of the future through Manpower MyPath - upskilling and transforming associates' lives to date across 12 countries including France, U.S. and Italy. We now have more than 11,000 clients actively engaged in this career pathways program, creating skills for our associates at scale.

Our results continue to reinforce our confidence in our strategic choices and investments. This is how we believe we will continue to drive profitable growth now and sustainable value creation for the long term for all our stakeholders.

I will now turn it over to Jack to take you through the Q1 results.

SLIDE 3 – Jack McGinnis

Thanks, Jonas.

Revenues in the first quarter came in at the top end of our constant currency guidance range. Gross profit margin came in above our guidance range. As adjusted, EBITA was $162 million, representing a 64% increase in constant currency from the prior year period, or a 46% increase on an organic constant currency basis. As adjusted, EBITA margin was 3.1% and came in above our guidance, representing 100 basis points of improvement, or 80 basis points organically.

Breaking our revenue trend down into a bit more detail, after adjusting for the negative impact of currency of about 5 and a half percent, our constant currency revenue increased 10%. Due to the impact of net acquisitions increasing revenue about three and half percent and slightly more billing days, the organic days-adjusted revenue increase was 6% compared to our guidance of 5%.

SLIDE 4 – Jack McGinnis

Turning to the EPS bridge, reported earnings per share was $1.68 which included 20 cents related to the previously announced loss on the sale of our Russia business in January and the Experis U.S. acquisition integration costs during the quarter. Excluding these items adjusted EPS was $1.88 which was well above the top end of our guidance range. Walking from our guidance mid-point, our results included improved operational performance of 26 cents, slightly lower weighted average shares due to share repurchases in the quarter which had a positive impact of 1 cent, a slightly higher effective tax rate which had a negative 1 cent impact, and favorable other expenses which added 2 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 reported revenue growth of 5%, the Experis brand reported revenue growth of 15%, and the Talent Solutions brand reported revenue growth of 13%. Within Talent Solutions we continue to see exceptional revenue growth in RPO and very strong revenue growth in MSP. As we continue to experience a record low outplacement environment, Right Management saw double digit percentage revenue decreases year over year.

SLIDE 6 – Jack McGinnis

Looking at our gross profit margin in detail, our gross margin came in at 17.4%. Underlying staffing margin contributed a 40 basis point increase. The Experis U.S. acquisition added 30 basis points. Permanent recruitment contributed a 90 basis point GP margin improvement as hiring activity continued to be strong across our largest markets. Experis Solutions contributed a 20 basis point improvement which was driven by the U.S. business. This was offset by a lower mix of Right Management career transition business which resulted in 20 basis points of GP margin reduction. Direct cost adjustments in Northern Europe represented 10 basis points of improvement and other items also represented 10 basis points improvement.

SLIDE 7 – Jack McGinnis

Moving onto our gross profit by business line. During the quarter, the Manpower brand comprised 57% of gross profit, our Experis professional business comprised 28%, and Talent Solutions comprised 15%.

During the quarter, our **Manpower** brand reported an organic constant currency gross profit year over year growth of 11%.

Gross profit in our **Experis** brand increased 29% on an organic constant currency basis year over year during the quarter.

Organic gross profit in **Talent Solutions** increased 22% in constant currency year over year. This was driven by the performance in RPO and MSP discussed earlier which was partially offset by the decreases in Right Management due to outplacement trends.

SLIDE 8 – Jack McGinnis

Our SG&A expense in the quarter was $758 million. Excluding the loss on the Russia business disposition and the Experis U.S. acquisition integration costs, SG&A was 16% higher on a constant currency basis and 12% higher on an organic constant currency basis. This reflects continued investment in the business, reflecting the addition of recruiters and sales personnel largely in Experis, RPO and in various growth opportunity markets in Manpower. The underlying increases consisted of operational costs of $77 million, incremental costs related to net acquired businesses of $31 million, offset by currency changes of $33 million. Adjusted SG&A expenses as a percentage of revenue represented 14.5% in the first quarter.

SLIDE 9 – Jack McGinnis

The **Americas** segment comprised 24% of consolidated revenue. Revenue in the quarter was $1.3 billion, an increase of 26% in constant currency or 7% on an organic constant currency basis, or 8% after adjusting for days. OUP was $73 million. As adjusted, OUP was $77 million and OUP margin was 6.1%.

SLIDE 10 – Jack McGinnis

The **U.S.** is the largest country in the Americas segment, comprising 71% of segment revenues. Revenue in the U.S. was $889 million, representing a 44% days-adjusted increase, or 13% organically, compared to the prior year.

As adjusted to exclude acquisition integration costs, OUP for our U.S. business was $62 million in the quarter representing an organic increase of 46%. As adjusted, OUP margin was 7.0%, or 6.1% on an organic basis.

Within the **U.S.,** the Manpower brand comprised 25% of gross profit during the quarter. Revenue for the Manpower brand in the U.S. increased 6% during the quarter, an improvement from the 2% growth recorded in the fourth 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. Experis U.S. had an exceptional quarter with revenues growing 35% organically and we anticipate continued strong double digit organic growth in the second quarter. The acquired U.S. Experis business had solid revenue growth during the quarter and the integration is proceeding on-schedule.

Talent Solutions in the U.S. contributed 29% of gross profit and experienced revenue growth of 15% 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 with strong revenue growth in the quarter. Within Right Management, career transition activity continued to run-off.

In the second quarter, we expect ongoing underlying improvement and revenue growth for the U.S. in the range of 46% to 50% year over year, or 15% to 19% organically.

Our **Mexico** operation experienced a revenue decline of 61% in constant currency in the quarter, representing a stable trend from the fourth quarter. The decline was driven by the new labor legislation that commenced in the third quarter of 2021. We anticipate a similar revenue decrease in the second quarter.

SLIDE 11 – Jack McGinnis

Southern Europe revenue comprised 43% of consolidated revenue in the quarter. Revenue in Southern Europe came in at $2.2 billion, growing 8% in constant currency. OUP equaled $95 million and OUP margin was 4.3%.

SLIDE 12 – Jack McGinnis

France revenue comprised 54% of the Southern Europe segment in the quarter and increased 8% in constant currency. OUP was $50 million in the quarter and OUP margin was 4.2%.

As we begin the second quarter, we are estimating a year over year constant currency increase in revenues for France in the range of 5% to 9%. Our recent revenue growth in the month of March was 7% which also represents the midpoint of our second quarter guidance range for France. The slight deceleration in revenue growth in March and early April in France is driven by the automotive sector.

Revenue in **Italy** equaled $445 million in the quarter reflecting an increase of 18% in days-adjusted constant currency. OUP equaled $29 million and OUP margin was 6.5%. We estimate that Italy will continue to have strong growth in the second quarter with year over year constant currency revenue growth in the range of 8% to 12%.

SLIDE 13 – Jack McGinnis

Our **Northern Europe** segment comprised 21% of consolidated revenue in the quarter. Revenue increased 4% in organic constant currency to $1.1 billion. After adjusting for the loss on the sale of our Russia business, OUP represented $9 million and OUP margin was 0.8%.

SLIDE 14 – Jack McGinnis

Our largest market in the Northern Europe segment is the **U.K.**, which represented 38% of segment revenues in the quarter. During the quarter, U.K. revenues were flat year over year in constant currency. This reflects the exit of certain low margin arrangements, replaced with higher fee-based margin business. These and other actions including permanent recruitment growth are driving significant improvement in the margin profile of our UK business. Our UK business is performing well and we expect a slight decrease in revenues and increase in margins during the second quarter based on the aforementioned business mix updates.

In **Germany,** revenues decreased 6% in days-adjusted constant currency in the first quarter. Although many of our European businesses have seen COVID related improvements in sickness rates and related associate utilization in the second half of the quarter, Germany has lagged in this regard. We are anticipating an improvement in sickness rates during the course of the second quarter. The trends in Germany also reflect a sluggish automotive sector for which supply chain issues have worsened in March. Overall, we are expecting a similar year over year revenue trend in the second quarter.

SLIDE 15 – Jack McGinnis

The **Asia Pacific Middle East** segment comprises 12% of total company revenue. In the quarter, revenue grew 6% in constant currency to $618 million. OUP was $19 million and OUP margin was 3.1%.

SLIDE 16 – Jack McGinnis

Our largest market in the APME segment is **Japan**, which represented 47% of segment revenues in the quarter. Revenue in **Japan** grew 14% in days-adjusted constant currency. 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 second quarter.

As I wrap up my comments on APME, I would like to give a brief update on our investment in ManpowerGroup Greater China. Although this business is no longer consolidated since the July 2019 IPO on the Hong Kong Stock Exchange, we remain the largest shareholder with a stake of approximately 37%. The China business has performed very well and recently released their 2021 results recording revenue growth of 23% for the year, including 41% growth in staffing in Mainland China. Profit attributed to owners increased 10% year over year. ManpowerGroup Greater China represents a significant strategic investment, and we are very pleased with their performance.

SLIDE 17 – Jack McGinnis

I'll now turn to cash flow and balance sheet. In the first quarter, free cash flow equaled $52 million compared to $128 million in the prior year.

At quarter end, days sales outstanding was up about 1 day year over year at 57 days. Capital expenditures represented $19 million during the first quarter.

During the first quarter we repurchased 578,000 shares of stock for $60 million. As of March 31st, we have 3.9 million shares remaining for repurchase under the share program approved in August of 2021.

SLIDE 18 – Jack McGinnis

Our balance sheet ended the quarter with cash of $777 million and total debt of $1.06 billion, resulting in a net debt position of $287 million. Our debt ratios at quarter-end reflect total gross debt to trailing twelve months Adjusted EBITDA of 1.44 and total debt to total capitalization at 31%.

SLIDE 19 – Jack McGinnis

Our debt and credit facilities did not change in the quarter. During the quarter, we reduced our utilization of the $600 million revolving credit facility from $75 million to $50 million. The revolver was utilized in funding the U.S. Experis acquisition and we expect to pay down the remainder over the next six months.

SLIDE 20 – Jack McGinnis

Next, I'll review our outlook for the second quarter of 2022. Our guidance continues to assume no material additional COVID-19 or Russia-Ukraine war related impacts beyond those that exist today. On that basis, we are forecasting underlying earnings per share for the second quarter to be in the range of $2.31 to $2.39, which includes an unfavorable foreign currency impact of 19 cents per share. This does not include the impact of acquisition integration costs of $4 to $6 million which will continue to be broken out separately from ongoing operations.

Regarding revenues, the stabilized impact of the regulation in Mexico continues to represent a year over year revenue loss of about 2% again in the second quarter of 2022. Considering this, our constant currency revenue guidance growth range is between 6% and 10% and at the midpoint represents 8%. After adjusting for the acquisition of the U.S. Experis business, the disposition of Russia, and a slightly lower number of billing days in the second quarter, our organic days-adjusted revenue growth rate represents 5% at the mid-point. This represents solid revenue growth across our industry verticals with the exception of automotive manufacturing which we expect to continue to be sluggish predominately in France and Germany.

We expect our EBITA margin during the second quarter to be up 40 basis points at the midpoint compared to the prior year with the acquired U.S. Experis business contributing 20 basis points of the improvement.

We estimate that the effective tax rate for both the second quarter and the full year of 2022 to be 30%.

As usual, our guidance does not incorporate restructuring charges or additional share repurchases and we estimate our weighted average shares to be 54.0 million.

I will now turn it back to Jonas.

SLIDE 21 – Jonas Prising

Thank you, Jack.

In times like this, we continue to be guided by our values in all that we do. Let me share with you more on how the teams are responding to the Ukraine crisis, across our business. We are acutely focused on where we can provide the greatest impact and be a part of the solution.

As we covered in our last earnings call – we sold our Russia business, which included operations in Ukraine, in January this year as part of our ongoing geographical portfolio strategy. As a result, even before the invasion, we were no longer employing people in Russia and Ukraine. At this time, our heartfelt sympathy and support goes out to our former colleagues in both Ukraine and Russia as their focus and values have always been centered on providing sustainable work to others and serving clients. We also have a long history of employing Ukrainian talent in Poland, the Czech Republic and other neighboring countries, a strong motivation and foundation to provide humanitarian and employment support during this crisis.

Just a couple of weeks ago I spent time with our European leaders including with the team in Poland, the country most impacted, having received 2.5+ million refugees in less than 2 months. I saw first-hand the truly amazing work the teams are doing to deliver on our PeopleFirst approach - providing incredible support to refugees, driving people from danger to safety, hosting them in their own homes and then helping them on their journey of resettlement – many of them women with young children. At the same time, the Polish team continues to drive the business forward, with strong profitable growth during the quarter, in a very tight labor market.

Our Ukraine Action plan which kicked in days into the crisis - is threefold: - one, providing humanitarian emergency support and immediate relief on the ground and in neighboring countries; two, integrating people into the workforce, including expanding our MyPath upskilling program to refugees with additional resettlement and language support, and three, partnering with companies and NGOs to scale long-term impact.

We are working very closely with clients in Poland and surrounding countries. We are partnering with them to redesign roles to employ more women refugees, and in the past few weeks alone have connected hundreds of people to roles in auto manufacturing and consumer goods production in Poland, the Czech Republic and Slovakia. In the Czech Republic we worked with the labor ministry as they swiftly changed legislation to allow non-EU citizens to work in the country. And we are helping aid agencies staff up while also committing $500,000 and counting to UNHCR and local humanitarian organizations including the Polish Red Cross.

Our management teams are managing very well in the current environment which, outside of some industry verticals I discussed, continues to be an environment in which there are very good growth opportunities. Should this change, we will manage risks to economic growth as we always do, proactively and in a manner that continues to position ManpowerGroup for ongoing success but for now, we are investing additional resources in markets where we continue to see opportunities for profitable growth.

As always, it is our people that drive our success and all we accomplish. We were recently recognized by the Wall Street Journal and The Drucker Institute as one of the top 250 Managed companies – scoring especially highly for sustainability. We were also recognized as one of the World's Most Ethical Companies for the 13th year by Ethisphere, a global leader in defining and advancing the standards of ethical business practices. We are proud to be the only company in our industry to be recognized for more than a decade and we thank all of our talented teams for playing a critical role in driving our business results and also, driving positive change in societies and communities around the world.

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