ManpowerGroup
Earnings Results Transcript
Q1 2021 CONFERENCE CALL

SLIDE 1 - Jonas Prising

Thanks for joining us today for the first quarter conference call for 2021. 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 www.manpowergroup.com. We will start by going through some of the highlights of the quarter, then Jack will go through the operating results and the segments, our balance sheet and cash flow, and guidance for the second quarter. I will then share some concluding thoughts before we start our Q&A session. But 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 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.

It has been one year since we first referred to the unfolding uncertainty of COVID-19 and the resulting lockdowns in many of our markets. At that time, we all had little idea of the magnitude of what lay ahead, or what the road to recovery in the most challenging operating environment in our history would look like. From that moment on we were determined to mitigate the impact on our financial results with early and strong actions and continue our investments in strategic initiatives, so we emerge stronger when the pandemic ends. Those priorities have enabled us to start 2021 in a good position as we see that the signs of recovery continue to play out in many markets. That said, the recovery is uneven and although many markets are steadily strengthening other markets, particularly in Europe, continue to experience COVID-19 related difficulties which are resulting in the need for more restrictions and which is impacting their rate of recovery. Overall, we believe we are heading in the right direction and expect continued improvement.

Turning to our financial results, in the first quarter revenue was $4.9 billion, up 1% year over year in constant currency. We saw increased demand in many of our key markets and this resulted in better than expected financial performance.

On a reported basis, we recorded an operating profit for the quarter of $98 million. Excluding restructuring charges in the prior year, operating profit was up 8% in constant currency marking a significant sequential improvement from the operating profit decline of 24% in the fourth quarter. Operating profit margin was 2.0%, up 120 basis points from the prior year on a reported basis and, after excluding restructuring charges in the prior year, operating profit margin increased 10 basis points. Earnings per diluted share was $1.11. Excluding restructuring charges in the prior year period, this reflects a constant currency increase of 28%.

The improving demand for our services also correlates to the recent results of our Q2 2021 ManpowerGroup Employment Outlook Survey which indicated broad based improvements in hiring intentions by employers. Our survey of 42,000 employers in 43 countries noted positive net employment trends across the majority of markets, a markedly different and improved outlook compared to the same time last year. 77% of employers anticipate returns to pre-pandemic hiring levels before the end of 2021, which is also a significant improvement from previous quarter surveys. Among the major markets, the U.S. topped the list in terms of overall hiring intentions for the second quarter.

As the demand for skilled workers continues to strengthen, technology related roles continue to be in demand as has been the case throughout much of the crisis. However, we are now seeing strengthening demand also for talent within the manufacturing sectors as evidenced by the strong manufacturing PMI data in March.

Even the industries most impacted by the pandemic – hospitality, entertainment and airlines – are showing positive signs of rehiring with indications they will see significant increases in the second half of this year. Logistics also shows no signs of reverting back to pre-crisis levels as the consumer shift to online retail is likely structural. As workplaces reopen and workers return in phases, we are seeing demand for HR skills -- especially with a greater focus on hiring and wellbeing. This is evidenced in the significantly improved demand for our RPO services.

Organizations that were reducing staffing levels in 2020 are now seeking strategic and operational flexibility as they optimize their workforce plans, reassess talent needs, and implement hybrid work models. We are well positioned to provide the expertise and services to meet this rising demand.

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 first quarter came in above our constant currency guidance range. Our gross profit margin came in at the mid-point of our guidance range. Our operating profit was $98 million representing an increase of 161%, or 146% on a constant currency basis. Excluding restructuring charges in the prior year, operating profit increased 14%, or 8% on a constant currency basis. This resulted in an operating profit margin of 2.0%, which was 50 basis points above the high end of our guidance.

Breaking our revenue trend down into a bit more detail, after adjusting for the positive impact of currency of about 6%, our constant currency revenue increased 1%. After considering net dispositions and fewer billing days, the organic days adjusted revenue increase was 2%. This represented a significant improvement from the fourth quarter revenue decline of 6.5% on a similar basis.

SLIDE 4 – Jack McGinnis

Turning to the EPS bridge on slide 4, earnings per share was $1.11 which significantly exceeded our guidance range. Walking from our guidance mid-point, our results included improved operational performance of 42 cents, slightly lower than expected foreign currency exchange rates which had a negative impact of 1 cent, a slightly better than expected effective tax rate that added 1 cent, and a lower weighted average share count from share repurchases that also added 1 cent.

SLIDE 5 – Jack McGinnis

Looking at our gross profit margin in detail, our gross margin came in at 15.6%. Underlying staffing margin contributed to a 10 basis points reduction. A lower contribution from permanent recruitment also contributed 10 basis points of GP margin reduction which was offset by a higher mix of MSP gross profit on very strong growth in the quarter.

SLIDE 6 – Jack McGinnis

Next, let's review our gross profit by business line. During the quarter, the Manpower brand comprised 63% of gross profit, our Experis professional business comprised 21%, and Talent Solutions brand comprised 16%.

During the quarter, our **Manpower** brand reported an organic constant currency gross profit growth of 2%. This was a significant improvement from the 11% decline in the fourth quarter.

Gross profit in our **Experis** brand declined 6% year over year during the quarter on an organic constant currency basis which represented an improvement from the 14% decline in the fourth quarter.

Talent Solutions includes our global market leading RPO, MSP and Right Management offerings. Organic gross profit increased 6% in constant currency year over year which is an improvement from the 1% growth in the fourth quarter. This was primarily driven by our MSP business with double digit GP growth. Our RPO business experienced significant improvement during the quarter and crossed back over to low single digit percentage growth in gross profit. Our Right Management business continues to see a run-off in previous outplacement activity as the recovery strengthens and experienced a reduction in gross profit of about 1% year over year.

SLIDE 7 – Jack McGinnis

Our SG&A expense in the quarter was $670 million and represented a 2% decline on a reported basis from the prior year. Excluding restructuring charges in the prior year, SG&A was flat on a constant currency basis. Currency changes reflected an increase of $35 million. The remaining underlying decrease was driven by $1 million from net dispositions and $2 million of operational cost reductions. SG&A expenses as a percentage of revenue represented 13.6% in the first quarter reflecting first quarter seasonality in revenues.

SLIDE 8 – Jack McGinnis

The **Americas** segment comprised 20% of consolidated revenue. Revenue in the quarter was $1 billion, an increase of 1% in constant currency. OUP was $44 million. Excluding restructuring costs in the prior year, OUP increased 52% in constant currency and OUP margin increased 150 basis points to 4.4%.

SLIDE 9 – Jack McGinnis

The **U.S.** is the largest country in the Americas segment, comprising 61% of segment revenues. Revenue in the U.S. was $609 million, representing a flat trend compared to the prior year. Adjusting for franchise acquisitions and days, this represented a 1% increase which is an improvement from the 5% decline in the fourth quarter.

Excluding restructuring charges in the prior year, OUP for our U.S. business increased 122% year over year to $29 million in the quarter. OUP margin was 4.8%.

Within the **U.S.,** the Manpower brand comprised 35% of gross profit during the quarter. Revenue for the Manpower brand in the U.S. increased 7% when adjusted for days and franchise acquisitions which represents a significant improvement from the 2% decline in the fourth quarter.

The Experis brand in the U.S. comprised 29% of gross profit in the quarter. Within Experis in the U.S., IT skills comprise approximately 80% of revenues. Experis U.S. revenues declined 11% on a days-adjusted basis during the quarter representing an improvement from the 14% decline in the fourth quarter. The U.S. Experis business experienced revenue trend improvement during the quarter and exited the quarter in single digit percentage declines and we expect to cross over to growth late in the second quarter.

Talent Solutions in the U.S. contributed 36% of gross profit and experienced revenue growth of 6% in the quarter. This was driven by RPO which experienced significant double-digit revenue growth as hiring programs continued to strengthen. The U.S. MSP business continued to perform well and experienced mid to high single digit revenue growth in the quarter. Career Transition activity continued to run-off which contributed to revenue reductions in Right Management in the U.S. as the other Talent Solutions offerings experienced solid growth.

Provided there are no significant business restrictions impacting our clients across the U.S., in the second quarter we expect ongoing underlying improvement and revenue growth for the US in the range of 23% to 27% year over year. To provide a bit more context, comparing expected second quarter revenues to pre-crisis levels on an organic basis, this represents a 4% decline from 2019 results using the midpoint of our guidance for the U.S.

Our **Mexico** operation experienced a revenue decline of 4% in constant currency in the quarter representing an improvement from the 6% decline in the fourth quarter. As discussed last quarter, Mexico is in the process of advancing labor legislation that could prohibit certain types of temporary staffing not considered specialized services. The proposed legislation is in the process of review by the Senate. When the legislation is adopted in final form, we will assess the potential impact on our business. It is possible the legislation could be finalized before the end of April and we would expect the effective date would be a number of months following enactment of the new law. We will provide a further update during our second quarter earnings call. Mexico represented between 2.5% and 3.0% of our global revenues in 2020.

Revenue in **Canada** increased 3% in days-adjusted constant currency during the quarter. This represented an improvement from the fourth quarter days adjusted revenue decline of 10%.

Revenue in the **Other Countries within Americas** increased 9% in constant currency reflecting improvement from the 4% increase in the fourth quarter. This was driven by significant constant currency revenue growth in Argentina, Brazil and Chile.

SLIDE 10 – Jack McGinnis

Southern Europe revenue comprised 44% of consolidated revenue in the quarter. Revenue in Southern Europe came in at $2.2 billion, crossing over to growth of 2% in constant currency. This reflects ongoing improvement from the fourth quarter trend driven by France, Italy and Switzerland. OUP equaled $73 million. Excluding restructuring costs in the prior year, OUP increased 2% in constant currency and OUP margin was flat at 3.4%.

SLIDE 11 – Jack McGinnis

France revenue comprised 55% of the Southern Europe segment in the quarter and increased 1% in days-adjusted constant currency. Although increased restrictions slowed the rate of underlying revenue improvement, the French business performed well in a challenging environment. This reflects a days-adjusted constant currency decline of about 9 to 10% in January and February and growth of 27% in March as we began to anniversary the onset of the pandemic. OUP was $43 million in the quarter and OUP margin was 3.6%.

As we begin the second quarter, despite the increased restrictions in France, we are holding associates on assignment relatively steady and cautiously anticipate modest improvement in activity during the quarter. We are estimating a year over year constant currency increase in revenues in the range of 68% to 72% in the second quarter overall as we anniversary the bottom of the pandemic. Comparing estimated second quarter revenues to pre-crisis levels in constant currency, this represents an 11% decline compared to 2019 levels in the second quarter using the midpoint of our guidance.

Revenue in **Italy** equaled $403 million in the quarter reflecting an increase of 14% in days-adjusted constant currency which was a significant improvement from the 3% growth in the fourth quarter. Excluding restructuring costs in the prior year, OUP increased 13% year over year in constant currency to $19 million and OUP margin was flat to the prior year. Italy is already performing above pre-crisis 2019 levels in the first quarter. We estimate that Italy will continue to perform very well in the second quarter with year over year revenue growth in the range of 42% to 46%.

Revenue in **Spain** increased 5% in days-adjusted constant currency from the prior year. This represents a reduction from the significant growth in the fourth quarter which reflected significant seasonal year-end logistics activity.

Revenue in **Switzerland** increased 7% in days-adjusted constant currency from the prior year in the quarter. This represents a significant improvement from the 14% decrease in the fourth quarter.

SLIDE 12 – Jack McGinnis

Our **Northern Europe** segment comprised 23% of consolidated revenue in the quarter. Revenue declined 2% in constant currency to $1.1 billion representing a significant improvement from the 11% decline in the fourth quarter driven by all major markets. Excluding restructuring costs in the prior year, OUP decreased 14% in constant currency and OUP margin decreased 10 basis points to 0.4%.

SLIDE 13 – Jack McGinnis

Our largest market in the Northern Europe segment is the **U.K.**, which represented 38% of segment revenue in the quarter. During the quarter, U.K. revenues grew 6% in days-adjusted constant currency which represented a significant improvement from the 7% decline in the fourth quarter. Our U.K. business continues to see strong public sector activity and increased demand across all brands. The U.K. is already performing above pre-crisis 2019 levels in the first quarter. We expect growth in the 30% to 35% constant currency range year over year in the second quarter which also reflects significant new customer activity.

In **Germany,** revenues declined 16% in days-adjusted constant currency in the first quarter which represented a significant improvement from the 31% decline in the fourth quarter on the same basis. Although Germany continues to be a difficult market for our industry, we expect to see ongoing revenue improvement in Germany with year over year growth in the second quarter.

In the **Nordics**, revenues declined 1% in days-adjusted constant currency representing an improvement from the 6% decline on the same basis in the fourth quarter.

Revenue in the **Netherlands** decreased 4% in days-adjusted constant currency representing an improvement from the 12% decline on the same basis in the fourth quarter.

Belgium experienced a days-adjusted revenue decline of 14% in constant currency during the quarter which also reflects improvement from the 25% decline on the same basis in the fourth quarter.

Other Markets in Northern Europe crossed over to growth in the quarter. Revenue increased 18% in constant currency which represents ongoing improvement from the fourth quarter increase of 9% in constant currency. This was driven by strong revenue growth in Poland, Russia and Ireland.

SLIDE 14 – Jack McGinnis

The **Asia Pacific Middle East** segment comprises 13% of total company revenue. In the quarter, revenue was flat in constant currency to $627 million. OUP was $19 million. Excluding restructuring costs in the prior year, OUP decreased 7% in constant currency and OUP margin decreased 30 basis points to 3.0%.

SLIDE 15 – Jack McGinnis

Revenue growth in **Japan** was up 6% in days-adjusted constant currency which represents a slight improvement from the 5% growth rate in the fourth quarter. Our Japan business continues to perform very well, and we expect ongoing revenue growth in the second quarter.

Revenues in **Australia** were flat in days-adjusted constant currency. This represented an improvement from the 2% decline on the same basis in the fourth quarter.

Revenue in **Other Markets** in Asia Pacific Middle East declined 7% in constant currency which was equal to the rate of revenue decline in the fourth quarter.

Now that ManpowerGroup Greater China Limited has released their 2020 annual report, we would like to provide a brief update on their results. As we previously disclosed, we remain the largest shareholder and record our approximate 37% share of earnings below operating profit. In 2020, the company successfully managed an extremely challenging environment and recorded year over year revenue growth of 6%, which included 28% staffing revenue growth in mainland China and achieved an increase in profits attributable to owners. We are very pleased with the progress of ManpowerGroup Greater China Limited.

SLIDE 16 – Jack McGinnis

I'll now turn to cash flow and balance sheet. During the first quarter, free cash flow equaled $128 million compared to $172 million in the prior year quarter reflecting more significant accounts receivable declines in the prior year quarter.

At quarter end, days sales outstanding decreased year over year by almost 4 days to 56 days. Capital expenditures represented $13 million during the quarter.

During the first quarter we purchased 1.1 million shares of stock for $100 million. As of March 31st, we have 2.2 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 $1.52 billion and total debt of $1.08 billion, representing a net cash position of $440 million. Our debt ratios at quarter-end reflect total gross debt to trailing twelve months Adjusted EBITDA of 2.33 and total debt to total capitalization at 31%.

SLIDE 18 – Jack McGinnis

Our debt and credit facilities did not change in the quarter. In addition, our revolving credit facility for $600 million remained unused.

SLIDE 19 – Jack McGinnis

Next, I'll review our outlook for the second quarter of 2021. Our guidance continues to assume no material additional lockdowns or business restrictions impacting our clients in any of our largest markets beyond those that exist today. On that basis, we are forecasting earnings per share for the second quarter to be in the range of $1.36 to $1.44, which includes a favorable impact from foreign currency of 10 cents per share.

Our constant currency revenue guidance growth range is between 27% and 31%. The mid-point of our constant currency guidance is 29%. A slight increase in billing days in the second quarter is partially offset by the slight impact of net dispositions, and as a result our outlook for organic days-adjusted revenue growth is also 29% at the mid-point. Adding the context of comparisons to pre-crisis activity levels, this would represent a second quarter organic constant currency decline in the range of -4% to -6% compared to 2019 revenues.

We expect our operating profit margin during the second quarter to be up 180 basis points at the midpoint compared to the prior year. This reflects another quarter of continued strong sequential underlying improvement.

We estimate that the effective tax rate in the second quarter will be 34%. Based on improved earnings mix, we are now estimating the full year effective tax rate will approximate 34%, a 1% improvement from our previous estimate of 35%.

As usual, our guidance does not incorporate restructuring charges or additional share repurchases and we estimate our weighted average shares to be 55.4 million.

I will now turn it back to Jonas.

SLIDE 20 – Jonas Prising

Thank you, Jack.

The challenging operating environment has not slowed our investments and plans to accelerate our Diversification, Digitization and Innovation initiatives. Our plans to simplify and prioritize are helping us realize improved efficiencies. Amidst all the disruption, what we knew all along has been confirmed. It is the combination of technology and the people-first approach of our teams that allows us to confidently manage global uncertainty, deliver locally and collaborate both personally and remotely as necessary. A good example of this is the recent recognition by industry analyst ALM for our Digitally-Enabled, Data-Driven Workforce Solutions in ManpowerGroup Talent Solutions. We are the only company in our industry to have received the Pacesetter designation and it serves as a good example of the strength of our Powersuite technology platforms.

ESG is a very important component of our strategy and we are also proud to have been recognized around the globe for our commitment to driving positive change for people and societies, and for our responsible business practices.

We have been awarded the highest recognition by EcoVadis – a provider of trusted business sustainability ratings. Our France and Norway businesses achieved the global Platinum award level placing us in the top

1% of all companies assessed. We now have Platinum, Gold and Silver EcoVadis ratings in more than 20 countries.

For the 12th year ManpowerGroup has also been recognized by Ethisphere as a World's Most Ethical Company, again the only company in the industry to earn this award.

These recognitions are testament to the dedication and commitment of our people to keep the world of work turning in a sustainable and ethical way, placing millions of people into jobs during a global pandemic, living our purpose that meaningful and sustainable employment has the power to change the world.

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

Operator?