ManpowerGroup
Earnings Results Transcript
Q2 2022 CONFERENCE CALL

SLIDE 1 – Jonas Prising

Welcome to the second quarter conference call for 2022. 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 second quarter results and guidance for the third 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.

I'm just back from extensive trips through Europe, which included the World Economic Forum's Annual Meeting in Davos, VivaTech, which is one of the world's largest technology and start-up events in Paris, and the

Choose France Summit held just last week in Versailles. I will touch on these events as well as insights from clients during my business reviews later in the call.

Turning to our financial results, in the second quarter revenue was $5.1 billion, up 6% year over year in constant currency, or 3% in organic constant currency. Our EBITA for the quarter was $190 million. Adjusting for the U.S. acquisition integration costs, EBITA was $193 million, reflecting growth of 22% in constant currency year over year. Reported EBITA margin was 3.7%, and adjusted EBITA margin was 3.8%. Earnings per diluted share was $2.29 on a reported basis and $2.33 on an adjusted basis. Adjusted earnings per share increased 28% year over year in constant currency.

After recent meetings with clients, policy makers and our teams across markets on my travels, I'm struck by the fact that despite the clouds weighing on the outlook of the global economy, the labor markets remain strong. Although there have been, and continue to be, disruptions from supply chain shortages in specific sectors such as automotive, construction and to a lesser degree logistics, our clients continue to prioritize acquiring talent in this environment. As a result, demand for our services remains strong across many of our major markets. Our clients are particularly interested in permanent recruitment, both in our Talent Solutions RPO business as well as in our staffing businesses, in MSP within Talent Solutions, in Experis IT resourcing and solutions, and across our Manpower Specializations.

Our own quarterly, forward-looking hiring research across 40,000 employers in 40+ countries - the ManpowerGroup Employment Outlook Survey - also showed that hiring confidence has remained strong in absolute measures, with organizations experiencing talent shortages at record highs. In our most recent survey, completed in May, 75% of companies globally predicted they would not be able to find the talent they need, which is the highest in 16 years.

In summary, labor markets are very healthy, talent shortages are high and demand for our services and solutions remains strong. Having said that, the combination of the continued war in Ukraine, increasing energy and food prices driving higher inflation rates and continued supply chain issues creates a more uncertain economic outlook. This will likely create economic headwinds that may eventually spill into labor markets to a greater degree than what we have seen so far. Should that be the case we are confident in our ability, as we have in the past, to manage changes in the market environment and adapting quickly, leveraging our diversified business mix and experienced leadership to position our company for continued success. We have made progress in diversifying our business into specialized higher value services and solutions, digitizing our business on common global platforms and creating talent at scale through our MyPath and Experis Academy initiatives. This should position us well, even in a more turbulent environment, and create competitive strength to our advantage.

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

SLIDE 3 – Jack McGinnis

Thanks, Jonas.

Revenues in the second quarter came in at the low end of our constant currency guidance range. Gross profit margin came in above our guidance range. As adjusted, EBITA was $193 million, representing a 22% increase in constant currency from the prior year period, or an 11% increase on an organic constant currency basis. As adjusted, EBITA margin was 3.8% and came in at the high end of our guidance, representing 50 basis points of year over year improvement, or 30 basis points organically.

Due to the significant strengthening of the dollar, particularly against the euro, year over year foreign currency movements had a much bigger impact than usual on our results. This drove an almost 10% swing between the US dollar reported revenue trend and the constant currency related growth rate. After adjusting for the negative impact of foreign exchange rates, our constant currency revenue increased 6%. Due to the impact of net acquisitions increasing revenue about three percent and slightly more billing days, the organic days-adjusted revenue increase was about 2 and half percent compared to our guidance of 5%. The softer revenue trend was the result of more modest growth than anticipated in the Manpower brand.

SLIDE 4 – Jack McGinnis

Turning to the EPS bridge, reported earnings per share was $2.29 which included 4 cents related to the Experis U.S. acquisition integration costs. Excluding the integration costs, adjusted EPS was $2.33. Walking from our guidance mid-point, our results included improved operational performance of 2 cents, slightly lower weighted average shares due to share repurchases in the quarter which had a positive impact of 3 cents, a slightly better effective tax rate which had a positive 1 cent impact, the foreign currency impact was 6 cents more negative than anticipated in our guidance particularly due to the euro weakness during the quarter, and other expenses had a negative 2 cents 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 revenue growth of 1%, the Experis brand reported revenue growth of 10%, 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 the outplacement environment continues to experience low levels of activity, 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 18.2%. Underlying staffing margin contributed a 30 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 30 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 10 basis points of GP margin reduction and other items represented a positive 20 basis points.

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 27%, and Talent Solutions comprised 16%.

During the quarter, our **Manpower** brand reported an organic constant currency gross profit increase of 6% year over year.

Organic gross profit in our **Experis** brand increased 20% in constant currency year over year. This reflects strong growth in higher margin solutions as well as permanent recruitment.

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 $741 million. Excluding acquisition integration costs, SG&A was 16% higher on a constant currency basis and 11% higher on an organic constant currency basis. This reflects continued investment in the business, reflecting the addition of recruiters and sales personnel in Experis, RPO and in various growth opportunity markets in Manpower. The underlying increases consisted of operational costs of $78 million, incremental costs related to net acquired businesses of $29 million, offset by currency changes of $60 million. Adjusted SG&A expenses as a percentage of revenue represented 14.5% in the second quarter.

SLIDE 9 – Jack McGinnis

The **Americas** segment comprised 25% of consolidated revenue. Revenue in the quarter was $1.3 billion, an increase of 23% in constant currency or 4% on an organic constant currency basis, or 6% after adjusting for days. OUP was $81 million. As adjusted, OUP was $84 million and OUP margin was 6.6%.

SLIDE 10 – Jack McGinnis

The **U.S.** is the largest country in the Americas segment, comprising 72% of segment revenues. Revenue in the U.S. was $904 million, representing a 44% increase, or 12% organically, compared to the prior year.

As adjusted to exclude acquisition integration costs, OUP for our U.S. business was $67 million in the quarter representing an organic increase of 22%. As adjusted, OUP margin was 7.5%.

Within the **U.S.,** the Manpower brand comprised 26% of gross profit during the quarter. Revenue for the Manpower brand in the U.S. increased 3% during the quarter, a slight deceleration from the 6% growth recorded in the first 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. had a very strong quarter with revenues growing 25% organically and we anticipate continued strong double digit organic growth in the third 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 17% in the quarter. This was driven by RPO which continued to win new business and experienced another quarter of record revenue levels as hiring programs remained very strong. The U.S. MSP business continued to perform well with strong revenue growth in the quarter. Within Right Management, career transition activity remained low.

In the third quarter, we expect ongoing strong revenue growth for the U.S. in the range of 34% to 38% year over year, or 6% to 10% organically.

Our **Mexico** operation experienced a revenue decline of 61% in constant currency in the quarter, representing a stable trend since the commencement of the new labor regulation in 2021. We begin to anniversary the impact of the regulations in August and expect a revenue decrease of approximately 23% to 27% in the third quarter.

SLIDE 11 – Jack McGinnis

Southern Europe revenue represented 43% of consolidated revenue in the quarter. Revenue in Southern Europe came in at $2.2 billion, growing 2% in constant currency. OUP equaled $112 million and OUP margin was 5.1%.

SLIDE 12 – Jack McGinnis

France revenue comprised 56% of the Southern Europe segment in the quarter and increased 4% in constant currency. OUP was $62 million in the quarter and OUP margin was 5.0%. France experienced a decelerating revenue trend during the quarter as Russia-Ukraine related supply chain disruptions continued to impact the automotive sector and, to a lesser degree, construction and logistics.

As we begin the third quarter, we are estimating a year over year constant currency revenue trend for France in the range of - 1% to +3%. Our recent revenue trend in the month of June was +1% which also represents the midpoint of our third quarter guidance range for France.

Revenue in **Italy** equaled $454 million in the quarter reflecting an increase of 11% in days-adjusted constant currency. OUP equaled $35 million and OUP margin was 7.8%. We estimate that Italy will continue to have solid growth in the third quarter with a year over year constant currency revenue increase in the range of 1% to 5% which represents mid-single digit growth at the midpoint on a days-adjusted basis.

SLIDE 13 – Jack McGinnis

Our **Northern Europe** segment comprised 20% of consolidated revenue in the quarter. Revenue of $1 billion was flat in organic constant currency or represented 1% growth adjusted for billing days. OUP represented $11 million and OUP margin was 1.1%.

SLIDE 14 – Jack McGinnis

Our largest market in the Northern Europe segment is the **U.K.**, which represented 36% of segment revenues in the quarter. During the quarter, U.K. revenues decreased 6% in constant currency, or 4% adjusted for billing days. This reflects the exit of certain low margin arrangements replaced with higher fee-based margin business. Considering this, our UK business is performing well and we expect low to mid-single digit constant currency revenue growth in the third quarter.

In **Germany,** revenues decreased 9% in days-adjusted constant currency in the second quarter. As we have discussed in the past, Germany is one of the most difficult markets for our industry due to the regulations impacting management of the bench workforce, the outsized impact of the automotive sector and, more recently, the impact from the Russia-Ukraine war. Although we have made some progress in improving the business, we are not satisfied with the rate of improvement and have more work to do in this challenging market. Overall, we are expecting a similar year over year revenue trend in the third quarter

SLIDE 15 – Jack McGinnis

The **Asia Pacific Middle East** segment comprises 12% of total company revenue. In the quarter, revenue grew 10% in constant currency to $604 million. OUP was $23 million and OUP margin was 3.7%.

SLIDE 16 – Jack McGinnis

Our largest market in the APME segment is **Japan**, which represented 45% of segment revenues in the quarter. Revenue in **Japan** grew 13% in days-adjusted constant currency. We are very pleased with the performance of our Japan business, and we expect continued strong revenue growth in the third quarter.

SLIDE 17 – Jack McGinnis

I'll now turn to cash flow and balance sheet. In the six months year to date, free cash flow equaled a cash outflow of $20 million compared to positive free cash flow of $171 million in the prior year. In the second quarter, free cash flow represented a cash outflow of $72 million compared to positive free cash flow of $43 million in the prior year. The cash outflow during the second quarter was driven by strong growth in North America and timing of payables. We expect to resume strong free cash flow in the second half of the year.

At quarter end, days sales outstanding was up about 2 days year over year at 58 days. Capital expenditures represented $23 million during the second quarter.

During the second quarter we repurchased 1.14 million shares of stock for $100 million. As of June 30th, we have 3.5 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 $886 million and total debt of $1.4 billion. On June 30th, we issued a new 400 million Euro note as part of our refinancing of the Euro note of the same amount scheduled to mature in September 2022. With the proceeds from the June 30th sale, we repaid the maturing Euro note during the first week of July. As a result, the balance sheet at June 30th reflects the temporary increase in our debt as a result of the refinancing activity. The adjusted amounts presented on the slide reflect the underlying debt and capitalization ratios without the additional euro note for this brief period. Net debt equaled $537 million at quarter-end. Our debt ratios at quarter-end reflect total adjusted gross debt to trailing twelve months Adjusted EBITDA of 1.22 and total adjusted debt to total capitalization at 29%.

SLIDE 19 – Jack McGinnis

Our debt and credit facilities summary reflects the new Euro Note issuance maturing in June of 2027 at an effective interest rate of 3.514%. As I noted, this issuance has now replaced the previous 400 million Euro note which was repaid shortly after quarter end. During the quarter, we also entered into a new $600 million revolving credit agreement for a new 5-year term maturing in May 2027. These new credit arrangements further strengthen our debt duration and overall balance sheet position. We expect to repay the remaining 50 million related to the prior year U.S. Experis acquisition during the third quarter.

SLIDE 20 – Jack McGinnis

Next, I'll review our outlook for the third quarter of 2022. Our guidance continues to assume no material additional COVID-19 or Russia-Ukraine war related impacts, including energy related disruptions in Europe, beyond those that exist today. On that basis, we are forecasting underlying earnings per share for the third quarter to be in the range of $2.19 to $2.27, which includes an unfavorable foreign currency impact of 29 cents per share. This does not include the impact of projected acquisition integration costs of $4 to $6 million which will continue to be broken out separately from ongoing operations.

Our constant currency revenue guidance growth range is between 4% and 8% and at the midpoint represents 6%. After adjusting for the acquisition of the U.S. Experis business, the disposition of Russia, and an almost equal number of billing days in the third quarter, our organic days-adjusted revenue growth represents 3% at the mid-point. This represents a stable to slightly improving trend from the second quarter revenue growth on this same basis. The third quarter revenue trend incorporates solid revenue growth across our industry verticals in our major markets with the exception of automotive which we expect to continue to be sluggish predominately in France and Germany and, to a lesser degree, construction in France. Our third quarter guidance assumes a stable economic environment throughout the full quarter and assumes the important September post-holiday period in Europe experiences no material trend change in demand.

We expect our EBITA margin during the third quarter to be up 60 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 third 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 52.8 million.

I will now turn it back to Jonas.

SLIDE 21 – Jonas Prising

Thank you, Jack.

We continue to make progress in our strategy to Digitize, Diversify and Innovate, and in our investments to create talent at scale through MyPath and Experis Academy.

On Diversification, our Experis business continues to grow very nicely globally, particularly here in the US, the largest market for IT resourcing and where our market share is strong, as well as in the UK and other key markets globally. We also expanded our higher value Talent Solutions offerings with a small acquisition in July in France which expands our capabilities in the public sector in France. Having just attended the Choose France event hosted by President Macron, I note that our industry is seen as an important contributor to achieve the French government's ambitious labor market agenda for full employment, which is very encouraging.

On Digitization we continue to execute our global technology agenda at pace, including the completion of the large PowerSuite implementation final wave of the US Manpower business, which followed the U.S Experis implementation conducted in prior years. We also successfully transitioned the U.S. acquired Experis business onto our PowerSuite front office during the quarter, so our U.S. and Global IT teams have been quite busy executing these successful implementations in the past quarters.

And on Innovation we continue to make excellent progress. For the 6th consecutive year, we were the Gold HR partner at VivaTech. Attended by half a million people, VivaTech serves as an excellent platform from which we can showcase human capital innovation through our Experis IT resourcing and project solutions offerings as well as our tech innovations across the Talent Solutions and Manpower brands. During the event we also launched our New Age of Tech Talent report on which tech skills are most in demand globally.

The innovations we showcased at VivaTech included our move into the metaverse with our Virtual Reality SkillsInSight assessment, RightMap, which is our data-driven digital career management offering, as well as our Manpower MyPath and Experis Academy – providing our clients with solutions that create, develop and retain talent, and use machine learning and AI to upskill and reskill in-demand tech workers at speed and scale – all of which is matching people to meaningful, sustainable jobs with better accuracy than either humans or machines could do on their own.

We were proud to host more than 20 HR tech start-ups in our Working to Change the World Lab, using innovation to represent our ESG commitments around Planet, People & Prosperity and Principles of Governance.

We also hosted many of our clients and other partners that demonstrate our community investment, including Junior Achievement, the world's 6th largest NGO that reaches more than 14 million young people each year and whose global Board I am honored to chair, to showcase examples of creating entrepreneurial talent for the jobs of today and tomorrow.

And finally, as further reinforcement and external recognition of our Diversification, Digitization and Innovation capabilities, we are very pleased to be named Star Performer and Global Leader in Recruitment Process Outsourcing for the 12th year in the Everest Group PEAK Matrix Assessment – recognized in both Global and EMEA categories. Everest especially recognizes our breadth of global service offerings, strong performance across a portfolio of buyers of all sizes and continued investment in our PowerSuite technology stack including our automated Rapid Recruit solution and IntelliReach, our data and analytics portal.

This is recognition to all of our global Talent Solutions team, and I thank them and the rest of the ManpowerGroup team for another quarter of good results and for delivering on our purpose to find meaningful sustainable employment for millions of people every year.

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