ManpowerGroup
Earning Results Call – Prepared Remarks
Q4 2020 CONFERENCE CALL

SLIDE 1 - Jonas Prising

Thanks for joining us today for the fourth quarter conference call for 2020. 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 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 first 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 includes additional forward-looking statement considerations and important information regarding previous SEC filings and reconciliation of non-GAAP measures.

SLIDE 3 – Jonas Prising

Thanks Jack. During our earnings call in October, we talked about signs of recovery in the third quarter. Pleased to say we saw this trend of slow and steady recovery continuing into the fourth quarter. Despite experiencing a series of new COVID-19 related restrictions around the world, our results reflect a stronger market environment than we had anticipated, with revenue growth and new opportunities in select markets.

We are now seeing clear signs of a K-shaped, two-speed recovery. The bifurcation is evident between industries able to adjust to the uncertain environment and others, like travel, hospitality and entertainment industries being significantly impacted by lockdowns. This is also reflected in a labor market divide where demand for workers has improved in some industries and in others remains stalled, with high unemployment rates. Organizations investing in digitization and automation are already emerging stronger and that is driving an acceleration in the polarization of the workforce between the skilled and the unskilled, creating a risk of continued post pandemic skills-based polarization of labor markets in many countries.

This is also captured in our recent Skills Revolution thought leadership series - Renew, Reskill and Redeploy - conducted across 26,000 employers in 40+ countries. Those companies that plan to speed up their digitization plans as a result of the pandemic are maintaining or increasing their headcount, in contrast to others who have put their plans on hold.

Many of the trends we have been predicting have accelerated significantly: adversity can often be a force for societies to change at an accelerated pace. Companies have digitized at a speed and scale they could never have imagined, and we expect these actions will continue into 2021.

With that context, I would now like to turn to our financial results. In the fourth quarter, revenue was $5.1 billion, down 6% year over year in constant currency, a significant improvement from the 14% decline in the third quarter on the same basis.

On a reported basis, we recorded an operating profit for the quarter of $138 million. Excluding restructuring charges, operating profit was $151 million, down 24% in constant currency. Reported operating profit margin was 2.7%, down 100 basis points from the prior year and, after excluding restructuring, operating profit margin was 3.0%, down 70 basis points from the prior year.

Reported earnings per diluted share of $1.33 reflects the impact of restructuring charges. Excluding the restructuring charges, our earnings per diluted share was $1.48 for the quarter representing a decrease of 39% in constant currency.

SLIDE 4 – Jonas Prising

Turning to the full year results for a moment, reported earnings per share for the year was 41 cents. Excluding restructuring charges and special items, earnings per share was $3.67 and represented a constant currency decrease of 53% year over year. Revenues for the year decreased 14% in constant currency to $18 billion, and reported operating profit was $188 million. Excluding restructuring and special items, operating profit was $377 million which represented a 48% constant currency decline year over year. Although 2020 was one of the most challenging years in recent history, we were able to reduce operational SG&A to significantly offset gross profit declines while remaining committed to our strategic investments for digitization, diversification, and innovation.

In our Manpower business, logistics demand was strong in the fourth quarter driven by the shift in how consumers are buying, and an extended holiday delivery peak. While we are seeing increasing cases of COVID-19 in several places, we are also seeing strong safety protocols, increased testing advanced by technology, allowing companies to avoid full shutdowns, manage plant productivity by segregating production lines, all reducing the infection risks and ensuring a safe work environment.

In Experis, our IT and resourcing and Solutions business, we are seeing positive trends in many industries and there continues to be good demand for a range of IT skills in a number of markets. Many organizations that put investments on hold or made cuts in 2020 are beginning to rebuild and reinvest. Others are seeking the offerings of our Talent Solutions business as they look to optimize their supplier management and delivery solutions and shift more to full-service HR providers with the tools and tech across markets to build just-in-case resilience and flexibility.

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.

Going back to the quarterly results on slide 3, revenues in the fourth quarter came in above our constant currency guidance range. Our gross profit margin came in at the low end of our guidance range. On a reported basis, our operating profit was $138 million. Excluding restructuring charges, our operating profit was $151 million, representing a decline of 21%, or a decline of 24% on a constant currency basis. This resulted in an operating profit margin of 3.0% before restructuring charges, which was 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 4%, our constant currency revenue declined about 6.5% which rounds to 6% on single digit percentage basis. As acquisitions and billing days had no net effect, the organic days adjusted revenue decline was also about 6.5%. This represented an improvement from the third quarter revenue decline of 15% on a similar basis and two consecutive quarters of significant improvement from the second quarter of 2020.

SLIDE 5 – Jack McGinnis

Turning to the EPS bridge on slide 5, on a reported basis, earnings per share was $1.33, which included the restructuring charges of $12 million which, including related tax impacts, represented a negative 15 cents. Excluding the restructuring charges, earnings per share was $1.48, which exceeded our guidance range. Included within this result was improved operational performance of 38 cents, better than expected foreign currency exchange rates which added 3 cents, a lower weighted average share count from share repurchases that added 2 cents, offset by higher other expenses that had a negative impact of 5 cents.

SLIDE 6 – Jack McGinnis

Looking at our gross profit margin in detail, our gross margin came in at 15.8%. Underlying staffing margin contributed to a 40 basis points reduction. The anniversary of the incremental Fillon subsidies in France in October and the mix of higher seasonal year end enterprise activity within the Manpower brand drove the overall additional year over year staffing margin decline from the third quarter result of down 20 basis points year over year. A lower contribution from permanent recruitment also contributed 30 basis points of GP margin reduction. 10 basis points of increased gross profit margin from career transition growth within Right Management was offset by a 10 basis points decline driven by a higher mix of seasonal other non-staffing activity.

SLIDE 7 – Jack McGinnis

Next, let's review our gross profit by business line. During the quarter, the Manpower brand comprised 65% of gross profit, our Experis professional business comprised 20%, and Talent Solutions brand comprised 15%.

During the quarter, our **Manpower** brand reported an organic constant currency gross profit decrease of 11%. This was an improvement from the 17% decline in the third quarter.

Gross profit in our **Experis** brand declined 14% year over year during the quarter on an organic constant currency basis which represented an improvement from the 19% decline in the third quarter. The lower contribution from perm gross profit drove a more significant gross profit decline compared to the revenue decline in Experis.

Talent Solutions includes our global market leading RPO, MSP and Right Management offerings. Organic gross profit crossed back over to growth in the quarter at 1% in constant currency year over year which is an improvement from the 2% decline in the third quarter. This was primarily driven by our MSP business which had a very strong fourth quarter with double digit GP growth and increased year over year career transition activity within our Right Management business. Our RPO business experienced a significant improvement in the rate of decline during the fourth quarter from the third quarter reaching single digit percentage declines in the fourth quarter.

SLIDE 8 – Jack McGinnis

Our reported SG&A expense in the quarter was $661 million including the restructuring charges of $12 million. Excluding the restructuring charges, SG&A of $649 million represented a decrease of $19 million from the prior year. This underlying decrease was driven by $40 million of operational cost reductions, a decrease of $2 million from net dispositions, partially offset by an increase of $22 million from currency changes. On an organic constant currency basis, excluding restructuring, SG&A expenses decreased 6% year over year which represented a very strong recovery against a 10% gross profit decline. SG&A expenses as a percentage of revenue continued to improve sequentially and represented 12.8% in the fourth quarter, excluding restructuring.

SLIDE 9 – Jack McGinnis

The **Americas** segment comprised 20% of consolidated revenue. Revenue in the quarter was $1 billion, a decrease of 3% in constant currency. OUP was $48 million and OUP margin was 4.7%.

SLIDE 10 – Jack McGinnis

The **U.S.** is the largest country in the Americas segment, comprising 61% of segment revenues. Revenue in the U.S. was $622 million, representing a decrease of 4% compared to the prior year. Adjusting for franchise acquisitions, this represented a 5% decrease which is a significant improvement from the 16% decline in the third quarter.

During the quarter, OUP for our U.S. business decreased 11% to $30 million. OUP margin was 4.8%. The U.S. continued to benefit from higher margin career transition activity within Right Management year over year, but at a reduced level from the third quarter.

Within the **U.S.,** the Manpower brand comprised 36% of gross profit during the quarter. Revenue for the Manpower brand in the U.S. was down 2% when adjusted for days and franchise acquisitions which reflects a material improvement from the 21% decline in the third quarter. We expect the Manpower business to cross over to growth on a quarterly basis in Q1.

The Experis brand in the U.S. comprised 27% of gross profit in the quarter. Within Experis in the U.S., IT skills comprise approximately 80% of revenues. Revenues within our IT vertical within Experis U.S. declined 13% during the quarter and total Experis U.S. revenues declined 14% as the Finance and Engineering verticals experienced greater decreases. This trend reflects a slight improvement from the third quarter year over year rate of revenue decline.

Talent Solutions in the U.S. contributed 37% of gross profit and experienced revenue growth of 6% in the quarter. Within Right Management in the U.S., revenues increased 8% year over year driven by career transition activity during the quarter. The U.S. MSP business continues to perform very well in the current environment and again experienced year over year increased revenues during the fourth quarter. The U.S. RPO business crossed back over to revenue growth during the fourth quarter moving to a low double-digit revenue increase driven by RPO client wins as well as additional projects during the fourth quarter.

Provided there are no significant business restrictions impacting our clients across the US, in the first quarter we expect ongoing improvement and an overall rate of decline in the very low single digits for the quarter overall.

Our **Mexico** operation experienced a revenue decline of 6% in constant currency in the quarter representing an improvement from the 9% decline in the third quarter. During the fourth quarter, the President of Mexico introduced a labor proposal that would prohibit certain types of temporary staffing outside of specialized services. If enacted, we expect this could significantly restrict our activity in Mexico. The bill is still under development in the Mexican legislature, and could be finalized in March or April. We will provide an update during our first quarter earnings call, at which time we expect to have greater clarity on the likelihood of adoption and the specific restrictions as they would apply to us. Mexico represented between 2.5% and 3.0% of our global revenues in 2020.

Revenue in **Canada** declined 10% in constant currency during the quarter. This represented a slight improvement from the third quarter billing days adjusted revenue decline of 11%.

Revenue in the **Other Countries within Americas** crossed back over to growth with a 4% increase in constant currency reflecting a significant improvement from the 6% decline in the third quarter. This was driven by significant revenue growth in Argentina, Brazil and Chile.

SLIDE 11 – Jack McGinnis

Southern Europe revenue comprised 46% of consolidated revenue in the quarter. Revenue in Southern Europe came in at $2.3 billion, a decrease of 7% in constant currency. This is a significant improvement from the third quarter trend driven by France, Italy and Spain. OUP including restructuring costs equaled $100 million. Excluding restructuring costs, OUP decreased 25% from the prior year in constant currency and OUP margin was down 100 basis points. The $4 million of restructuring costs represented France real estate optimization.

SLIDE 12 – Jack McGinnis

France revenue comprised 56% of the Southern Europe segment in the quarter and was down 11% from the prior year in constant currency. This reflects a steady rate of improvement over the course of the quarter. OUP including restructuring costs was $62 million in the quarter. Excluding restructuring costs, OUP was $66 million and OUP margin was 5.0%. Although improvement was steady in France during the fourth quarter, January has experienced a softening in the revenue trend as COVID-19 concerns have increased and the government has imposed more restrictions. We are cautiously estimating ongoing sequential improvement in the revenue trend and are estimating a constant currency decline in revenues in the middle-single digit percentage range in the first quarter overall.

Revenue in **Italy** equaled $423 million in the quarter as Italy crossed back over to growth. Revenues increased 3% in constant currency during the quarter which was a significant improvement from the 12% days-adjusted decline in the third quarter. This reflects a progressive improvement over the course of the quarter and a particularly strong December driven by large year-end seasonal logistics activity from enterprise clients. OUP declined 25% year over year in constant currency to $24 million and OUP margin decreased 200 basis points to 5.6%. We estimate that Italy will have low single digit year over year revenue growth in the first quarter.

Revenue in **Spain** also crossed over to significant revenue growth in the fourth quarter also driven by enterprise seasonal activity. Revenue increased 18% on a days-adjusted constant currency basis from the prior year in the quarter. This represented a significant improvement from the 6% decrease in the third quarter. Considering the drop off of the year-end seasonal activity, we estimate that Spain will have revenue growth in the mid-single digits constant currency range in the first quarter.

Revenue in **Switzerland** decreased 14% on a days-adjusted constant currency basis from the prior year in the quarter. This represents a slight decline from the 13% decrease in the third quarter as our Switzerland business did not experience the year end seasonal increases that the other large markets in Southern Europe experienced.

SLIDE 13 – Jack McGinnis

Our **Northern Europe** segment comprised 22% of consolidated revenue in the quarter. Revenue declined 11% in constant currency to $1.1 billion representing a significant improvement from the 22% decline in the third quarter driven by the UK and the Netherlands.

OUP including restructuring costs represented $9 million. Excluding restructuring costs, OUP was $18 million and OUP margin was 1.6%. The $9 million of restructuring costs relates to Germany where we restructured a majority-owned venture with a third-party partner.

SLIDE 14 – Jack McGinnis

Our largest market in the Northern Europe segment is the **U.K.**, which represented 36% of segment revenue in the quarter. During the quarter, U.K. revenues decreased 7% in constant currency which represented a significant improvement from the 22% decline in the third quarter. The improvement was driven by significant year-end public sector activity, particularly in December. We are cautious in our outlook for the UK business and estimate a rate of constant currency revenue decline in the high single digits range during the first quarter representing the non-recurrence of certain year-end activity.

In **Germany,** revenues declined 31% in constant currency adjusted for billing days basis in the fourth quarter which did not represent a significant change from the 32% decline in the third quarter. We remain very cautious on our Germany business in the near term and expect improvement in the revenue trend in the first quarter.

In the **Nordics**, revenues declined 6% on a days-adjusted constant currency basis. The two primary businesses in the Nordics are Norway and

Sweden. On a days-adjusted constant currency basis, Norway experienced a decline of 6% and Sweden declined 4%. Both countries experienced a significant improvement in the rate of decline from the third quarter trend.

Revenue in the **Netherlands** decreased 12% on a days-adjusted constant currency basis which represents a significant improvement from the third quarter decline of 23%.

Belgium experienced a days-adjusted revenue decline of 25% in constant currency during the quarter which also reflects improvement from the third quarter trend.

Other Markets in Northern Europe crossed over to growth in the quarter. Revenue increased 9% in constant currency which represents a significant improvement from the third quarter decrease of 5% in constant currency. This was driven by strong revenue growth in Poland, Russia and Ireland.

SLIDE 15 – Jack McGinnis

The **Asia Pacific Middle East** segment comprises 12% of total company revenue. In the quarter, revenue decreased 1% in constant currency to $617 million. OUP represented $18 million and OUP margin decreased 70 basis points year over year.

SLIDE 16 – Jack McGinnis

Revenue growth in **Japan** was up 5% on a constant currency basis which represents a slight decrease from the 6% growth rate in the third quarter. Our Japan business continues to perform very well and we expect a constant currency revenue trend of low single digit growth in the first quarter.

Revenues in **Australia** declined 2% in constant currency on a days-adjusted basis. This represents an improvement from the 7% decline in the third quarter.

Revenue in **Other Markets** in Asia Pacific Middle East declined 7% in constant currency also representing an improving trend from the third quarter.

SLIDE 17 – Jack McGinnis

I'll now turn to cash flow and balance sheet. Free cash flow equaled $886 million for the year. During the fourth quarter, free cash flow equaled $201 million compared to $302 million in the prior year quarter.

At quarter end, days sales outstanding decreased by about three and a half days to 54 days. Our businesses have displayed outstanding collection and cash management practices throughout this crisis. Capital expenditures represented $51 million during 2020.

During the fourth quarter we purchased 2.5 million shares of stock for $201 million. Our purchases for the full year totaled 3.4 million shares for $265 million. As of December 31st, we have 3.4 million shares remaining for repurchase under the 6 million share program approved in August of 2019. As previously announced, we also increased the semi-annual dividend paid in December 2020 by 7.3%.

SLIDE 18 – Jack McGinnis

Our balance sheet was strong at quarter-end with cash of $1.57 billion and total debt of $1.12 billion, resulting in a net cash position of $443 million. Our debt ratios remain comfortable at quarter-end with total gross debt to trailing twelve months Adjusted EBITDA of 2.48 and total debt to total capitalization at 31%.

SLIDE 19 – Jack McGinnis

Our debt and credit facilities did not change in the quarter and the earliest Euro note maturity is not until September of 2022. In addition, our revolving credit facility for $600 million remained unused.

SLIDE 20 – Jack McGinnis

Next, I'll review our outlook for the first 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 cautiously forecasting earnings per share for the first quarter to be in the range of $64 cents to $72 cents, which includes a favorable impact from foreign currency of 7 cents per share.

Our constant currency revenue guidance range is between a decline of 4% to a decline of 6%. The mid-point of our constant currency guidance is a decline of 5%. On a days-adjusted basis, we note there is about 1 less billing day in Q1, which would improve the days-adjusted rate of revenue decline. This is offset slightly by the impact of net dispositions. At the midpoint, this would yield an organic days-adjusted rate of revenue decline of 3% for the first quarter, representing an ongoing improvement from the 6.5% decline in Q4.

We expect our operating profit margin during the first quarter to be down 50 basis points compared to the prior year reflecting a third consecutive quarter of sequential improvement in the year over year rate of adjusted operating margin decline. This reflects continued strong underlying cost actions within the businesses and higher corporate expenses year over year based on increased technology investment.

Regarding the effective tax rate, the government of France finalized their budget with the expected 50% reduction in the French business tax and a continuation of the corporate income tax reductions. Combined, this serves to reduce our underlying effective tax rate by about 4%. However, we will continue to have an elevated tax rate until we are closer to pre-crisis levels of pre-tax earnings and are estimating a full year 2021 effective tax rate of approximately 35%. The effective tax rate in the first quarter will be slightly lower at 34% based on the inclusion of certain discrete items.

As usual, our guidance does not incorporate restructuring charges or additional share repurchases and we estimate our weighted average shares to be 56.2 million.

I will now turn it back to Jonas.

SLIDE 21 – Jonas Prising

Thank you, Jack. We are well-positioned to be able to provide the strategic and operational workforce expertise and flexibility our clients and candidates are looking for - sourcing and developing in-demand talent across the globe, and delivering new work models across the HR solutions spectrum.

We strengthened our brand portfolio during 2020 and launched Talent Solutions as a separate brand to include our RPO, MSP and Right Management offerings. This accelerates our diversification strategy by focusing on higher margin, higher growth market segments in all brands.

We also remain laser-focused on delivering our digitization plans with our *PowerSuite* technology, and continued this investment even during the pandemic. We have already implemented *PowerSuite* in our front office in businesses across 17 countries and are in the process of implementation in another wave of businesses across 17 more countries. Based on this progress, we expect to have the majority of our businesses on our new PowerSuite front office by the end of this year. Our PowerSuite front office is improving efficiency and productivity enabled by technology via cloud, mobile and analytics. We also continue to roll out our new web platform for candidates. Our B2C digital investments build off the success of *Mon Manpower*, our French associate app – which has had more than 1.3 million downloads, the most downloaded and most highly rated in the French market. In France one-third of our applicants are sourced via the App with an average of 150,000 active users a month enjoying a full portfolio of B2C services - including on demand access to current, targeted assignment opportunities, time management and payroll technology and other services including online car-pooling. The success of this market-leading tool is helping us to scale and expand our B2C technology elsewhere as well.

We continue to invest in and advance our **Analytics** capability laying strong foundations for the creation of our data lake. It will be our data science and data-based decision-making that will continue to create new value, helping clients better predict performance and supporting candidates so they know more about their skills and potential.

SLIDE 22 – Jonas Prising

These, together with our investments in NextGen infrastructure programs, will continue to be critical enablers for the next steps of our process transformation and growth. And what we knew all along has been confirmed as well: it is the combination of tech and our PeopleFirst approach - the talent, the skills and dedication of our teams with last mile delivery capability - that allows us to confidently manage uncertainty, volatility and collaborate remotely, to deliver the solutions and talent organizations need while being more agile than we ever believed possible.

As we execute our strategic priorities, we remain committed to our values and broader purpose – that meaningful sustainable employment has the power to change the world.

As a member of the International Business Council we have committed to the IBC's new Stakeholder Capitalism Metrics, developed by the Big 4 global accounting firms, focused on People, Planet, Prosperity and Governance. This important framework will enable our organization and others to be more explicit on our commitments and progress we are making to create long term value to shareholders AND operate a sustainable business model that addresses the long-term imperatives of society.

Our Social Impact Report that we released in December is demonstration of the critical role we already play in being part of the solution; Case in point, in 2020 we were recognized as a Catalyst for Change among 70+ companies outpacing our global peers in advancing women, particularly women of color, along with being placed on the Dow Jones Sustainability Index for the 12th year.

Helping people and companies respond and reset, redeploy and reskill in this Skills Revolution remains the defining challenge of our time. And it is what our clients, candidates and employees expect us to help them with today and even more so in the future.

Finally, I am very proud and grateful for the relentless resilience and commitment of our people to support and deliver to each of our stakeholders during these challenging times – our employees, associates, clients, shareholders and the communities in which we operate.

As digitization continues at pace, we are confident that our strategy is even more relevant as structural changes take hold in a post pandemic world and as we continue to execute our strategy to Diversify, Digitize and Innovate it is positioning ManpowerGroup for greater success, improved returns and profitable growth in the future.

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