ManpowerGroup
Prepared Remarks Transcript
Q1 2023 CONFERENCE CALL

SLIDE 1 – Jonas Prising

Welcome to the first quarter conference call for 2023. 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 first quarter results and guidance for the second quarter of 2023. I will then share some concluding thoughts before we start our Q&A session. Jack will now cover the Safe Harbor language.

SLIDE 2 – Jack McGinnis

Good morning, everyone. This conference call includes forward-looking statements, including statements concerning economic and geopolitical uncertainty, which are subject to known and unknown risks and uncertainties. These statements are based on management's current expectations or beliefs. Actual results might differ materially from those projected in the forward-looking statements. We assume no obligation to update or revise any forward-looking statements.

Slide 2 of our earnings release presentation further identifies forward-looking statements made in this call and factors that may cause our actual results to differ materially and information regarding reconciliation of non-GAAP measures.

SLIDE 3 – Jonas Prising

Thanks Jack.

In our previous earnings call, we reported that organizations remained focused on maintaining and augmenting headcount for essential talent, though we were also seeing softening of demand for staffing services due to increased economic uncertainty.

This softening trend continued into the first quarter of this year, with demand for staffing services slowing further, most notably in the U.S. Europe continued to experience a modest decrease in demand in most major markets during the quarter, following a trend that started early in 2022.

After months of a remarkably strong U.S. labor market, we are now seeing more companies across various industries recalibrating their workforces after a period of bullish hiring, shifting their focus towards more intentional hiring for specialist skills and in-demand roles, delaying hiring decisions and reducing their demand for contingent workforce, in line with dynamics we have seen in past economic slowdowns. Although this cautious environment is resulting in lower volumes of staffing activity in the U.S. and Europe, we continue to support our clients by delivering the in-demand specialist resources they need in this environment, and are also playing a big role in replenishing their permanent workforce in critical parts of their businesses. It is important to note that business trends in Asia Pacific, the Middle East and Latin America continued to be quite robust and helped offset the more challenging environment in the U.S. and Europe, illustrating the advantage of our geographically diversified market presence. I just finished business review meetings on the ground in our Asia and Latin America businesses and I'll talk more about that later.

Turning to our financial results, in the first quarter revenue was $4.8 billion, down 2% year over year in constant currency. Our reported EBITA for the quarter was $127 million. Adjusting for restructuring costs, EBITA was $133 million, representing an 11% decrease in constant currency year over year. Reported EBITA margin was 2.7%, and adjusted EBITA margin was 2.8%. Earnings per diluted share were $1.51 on a reported basis and $1.61 on an adjusted basis. Adjusted earnings per share were down 7% year over year in constant currency.

Our clients have indicated that despite the slowing environment, core business transformation must continue, underscoring the need for different and more advanced skills. Our own quarterly ManpowerGroup Employment Survey data shows employers plan to continue hiring mission critical talent, given shortages for in-demand roles are at record levels. This demand for talent is evidenced by ongoing strong growth in permanent recruitment in many of our largest markets including the U.K., France, Italy, Japan, Spain and the Nordics, among others.

I will now pass to Jack to share more details on the financials.

SLIDE 3 – Jack McGinnis

Thanks, Jonas.

Revenues in the first quarter came in between the low-end and the mid-point of our constant currency guidance range. Gross profit margin came in at the high-end of our guidance range. As adjusted, EBITA was $133 million, representing an 11% decrease in constant currency compared to the prior year period. As adjusted, EBITA margin was 2.8% and came in at the mid-point of our guidance range, representing 30 basis points of decline year over year.

Due to the strengthening of the dollar, year over year foreign currency movements continued to have a significant impact on our results. It is important to note that our businesses operate in local currencies and, as a result, foreign currency translation does not impact cash flow activity within our businesses and is largely an accounting item based on reporting translation into U.S. dollars. Foreign currency translation drove about a five and half percent swing between the U.S. dollar reported revenue trend and the constant currency related trend. After adjusting for the negative impact of foreign exchange rates, our constant currency revenue decreased 2%. Organic days-adjusted revenue decreased 4% in the quarter compared to our guidance of -2.5% at the midpoint. The lower revenue trend reflected a deteriorating environment during the first quarter, particularly across the U.S. and Europe.

SLIDE 4 – Jack McGinnis

Turning to the EPS bridge on slide 4, reported earnings per share were $1.51 which included $0.10 related to restructuring costs. Excluding restructuring costs, adjusted EPS was $1.61. Walking from our guidance mid-point, our results included a softer operational performance of 4 cents, a lower effective tax rate which had a positive impact of 1 cent, a foreign currency impact that was 1 cent better than our guidance due to the strengthening of the euro and the pound during the quarter, and other expenses, which included increased pension plan related interest costs, had a negative 3 cent 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 a revenue decline of 1%, the Experis brand declined by 5%, and the Talent Solutions brand reported a revenue decline of 1%. The Experis decline was driven by lower volumes from enterprise clients as we anniversaried significant growth in the prior year. Within Talent Solutions we saw modest year over year revenue decline in RPO as we anniversary exceptional levels of permanent hiring across our key markets in the prior year period. Our MSP business saw revenue declines in the quarter as we reduced certain lower margin activity, while Right Management experienced significant revenue growth on higher outplacement volumes in the quarter compared to the low levels in the prior year.

SLIDE 6 – Jack McGinnis

Looking at our gross profit margin in detail, our gross margin came in at 18.2%. Staffing margin contributed to a 40 basis point increase as Experis and Manpower both experienced staffing margin expansion. Permanent recruitment, including Talent Solutions RPO, contributed a 10 basis point GP margin reduction as permanent hiring demand continued at reduced levels from the exceptional activity in the prior year period. Favorable direct cost adjustments, primarily in the U.S., contributed 10 basis points in the quarter. Right Management career transition within Talent Solutions contributed 20 basis points of improvement 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 56% of gross profit, our Experis professional business comprised 27%, and Talent Solutions comprised 17%.

During the quarter, our consolidated gross profit increased 1% on an organic constant currency basis year over year.

Our **Manpower** brand reported an organic gross profit increase of 2% in constant currency year over year.

Organic gross profit in our **Experis** brand decreased 2% in constant currency year over year.

Organic gross profit in **Talent Solutions** increased 1% in constant currency year over year. This was driven by significant growth in Right Management. Gross Profit in RPO decreased in the mid to high single digit percentage range in the quarter as we anniversary record-levels of permanent hiring activity in the prior year period, while MSP experienced a slight GP decline during the quarter.

SLIDE 8 – Jack McGinnis

Reported SG&A expense in the quarter was $745 million. Excluding restructuring costs, SG&A was 3% higher year over year on an organic constant currency basis, down from the 4% growth in the fourth quarter on this same basis. This reflects a balance of cost reductions in areas of slowing demand while we continue to invest in strategic digitization initiatives as well as growth opportunities, most notably including Experis, Talent Solutions, and specialty skills in Manpower. The underlying increases consisted of operational costs of $25 million, incremental costs related to net acquisitions and dispositions of businesses of $3 million, offset by currency changes of $35 million. Adjusted SG&A expenses as a percentage of revenue represented 15.4% in constant currency in the first quarter reflecting lowered operational leverage on the revenue decline. Restructuring costs totaled $7 million.

SLIDE 9 – Jack McGinnis

The **Americas** segment comprised 24% of consolidated revenue. Revenue in the quarter was $1.1 billion, representing a decrease of 6% compared to the prior year period on a constant currency basis. Reported

OUP was $49 million and includes $1 million of restructuring costs. As adjusted, OUP was $50 million and OUP margin was 4.4%.

SLIDE 10 – Jack McGinnis

The **U.S.** is the largest country in the Americas segment, comprising 68% of segment revenues. Revenue in the U.S. was $770 million during the quarter, representing a 13% days-adjusted decrease, compared to the prior year.

As adjusted to exclude restructuring costs, OUP for our U.S. business was $32 million in the quarter representing a decrease of 49%. As adjusted, OUP margin was 4.1%.

Within the **U.S.,** the Manpower brand comprised 25% of gross profit during the quarter. Revenue for the Manpower brand in the U.S. decreased 15% on a days-adjusted basis during the quarter, representing a decline from the 8% decrease in the fourth quarter. Manufacturing PMI in the U.S. continued to decline during the first quarter from the 48 range in December to the 46 range in March. Our U.S. Manpower business experienced a progressive pull back in demand during the course of the 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. On a days-adjusted basis, Experis U.S. revenue decreased 12% as we anniversaried peak 2022 growth of 33% organically in the year-ago period. As referenced earlier, the year ago period experienced dramatic growth from enterprise clients for which activities levels are lower in the current period.

Talent Solutions in the U.S. contributed 30% of gross profit and experienced revenue decline of 15% in the quarter. This was driven by a decrease in RPO revenues in the U.S. as permanent hiring programs continued at lower levels in the first quarter as we anniversaried exceptional growth in the prior year. Although RPO activity is lower in the current environment, first quarter RPO revenues were well above pre-pandemic levels. The U.S. MSP business saw revenue decline as we reduced some lower margin activity, while outplacement activity within our Right Management business drove significant revenue increases.

In the second quarter of 2023, we expect a similar to slightly higher rate of year over year revenue decline as compared to the first quarter trend in the U.S.

SLIDE 11 – Jack McGinnis

Southern Europe revenue comprised 43% of consolidated revenue in the quarter. Revenue in Southern Europe came in at $2.1 billion, representing a 2% decrease in organic constant currency. OUP for our Southern Europe business was $90 million during the quarter, representing an OUP margin of 4.4% excluding some minor restructuring.

SLIDE 12 – Jack McGinnis

France revenue comprised 57% of the Southern Europe segment in the quarter and revenue equaled $1.2 billion in the quarter and was flat on a days-adjusted organic constant currency basis. OUP for our France business was $45 million in the quarter representing an organic decrease of 8% in constant currency. OUP margin was 3.8%.

We are estimating the year over year constant currency revenue trend in the second quarter for France to be a slight decrease year over year.

Revenue in **Italy** equaled $422 million in the quarter reflecting a decrease of 3% on a days-adjusted constant currency basis. OUP equaled $31 million and OUP margin was 7.3%. We estimate in constant currency that Italy will have a flat to slight growth revenue trend year over year in the second quarter.

SLIDE 13 – Jack McGinnis

Our **Northern Europe** segment comprised 20% of consolidated revenue in the quarter. Revenue of $968 million represented a 3% decline in organic constant currency. After excluding restructuring costs, adjusted OUP was $8 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 35% of segment revenues in the quarter. During the quarter, U.K. revenues decreased 12% on a days-adjusted constant currency basis. This reflects a higher rate of decline from the fourth quarter decrease of 6% on this same basis. We expect a slightly lower rate of revenue decline in the second quarter compared to the first quarter.

In **Germany,** revenues increased 1% in days-adjusted constant currency in the quarter, representing two consecutive quarters of improvement driven by our Manpower business. Our Germany managed services Proservia business continues to require significant management attention and actions to improve performance. We are in the process of performing a detailed evaluation of the Proservia business and will provide a further update in future periods. Overall, in the second quarter we are expecting slightly improved year over year revenue growth compared to the first quarter trend.

The **Netherlands** is one of our smaller businesses in Northern Europe. The revenue decrease in the first quarter of 7% days-adjusted constant currency was a slightly higher rate of decline than the fourth quarter trend of -5% on this same basis.

SLIDE 15 – Jack McGinnis

The **Asia Pacific Middle East** segment comprises 13% of total company revenue. In the quarter, revenue grew 7% in constant currency to $606 million. As adjusted to exclude restructuring, OUP was $24 million and OUP margin was 3.9%. Restructuring charges of $2.5 million related to our Australia business.

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 13% in constant currency, or 11% on a days-adjusted basis. We remain very pleased with the consistent performance of our Japan business, and we expect continued strong revenue growth in the second quarter.

SLIDE 17 – Jack McGinnis

I'll now turn to cash flow and balance sheet. In the first quarter, free cash flow equaled $111 million compared to $52 million in the prior year.

At the end of the first quarter, days sales outstanding decreased about half a day to 56 days. During the first quarter, capital expenditures represented $13 million.

During the first quarter we repurchased 369,000 shares of stock for $30 million. As of March 31st, we have 1.6 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 $707 million and total debt of $989 million. Net debt equaled $282 million at quarter-end. Our debt ratios at quarter-end reflect total adjusted gross debt to trailing twelve months Adjusted EBITDA of 1.38 and total debt to total capitalization at 28%.

SLIDE 19 – Jack McGinnis

Our debt and credit facilities remained unchanged during the quarter. After successfully lengthening our debt duration profile with the Euro Note executed in mid-2022, we exit the quarter with a very strong balance sheet.

SLIDE 20 – Jack McGinnis

Next, I'll review our outlook for the second quarter of 2023. Based on trends in the first quarter and April activity to date, our forecast is cautious and anticipates that the second quarter will continue to be challenging in the U.S. and Europe. We are forecasting underlying earnings per share for the second quarter to be in the range of $1.58 to $1.68, which includes an unfavorable foreign currency impact of 3 cents per share. We have disclosed our foreign currency translation rate estimates at the bottom of the guidance slide.

Our constant currency revenue guidance range is between a decrease of 5% and 1% and at the midpoint represents a 3% decrease. The impact of net acquisitions and less billing days year over year is slight and the organic days-adjusted constant currency revenue trend is the same 3% decrease at the mid-point. This is slightly lower than the 4% decrease in the first quarter on this same basis as the comparable growth rate stepped down from Q1 to Q2 last year.

We expect our EBITA margin during the second quarter to be down 100 basis points at the midpoint compared to the prior year.

We estimate that the effective tax rate for the second quarter will be 30%.

As usual, our guidance does not incorporate restructuring charges or additional share repurchases and we estimate our weighted average shares to be 51.3 million.

I will now turn it back to Jonas.

SLIDE 21 – Jonas Prising

Thanks, Jack.

Although the environment is becoming more challenging, we are doubling down on our strategic initiatives within the pillars of *Diversification, Digitization* and *Innovation* (DDI) to strengthen our capabilities and make progress on shifting our business mix to higher-value services, supported by a market leading technology platform strategy, in all our brands.

We continue to make strong progress on diversifying our business with our higher margin brands Experis and Talent Solutions making up 44% of gross profit dollars. This, together with our industry leading geographic footprint and strong balance sheet, leaves us well prepared to weather economic cycles. Within Talent Solutions, although activity levels in RPO and MSP are down from the peaks in the prior year period, gross profit levels remain well above pre-pandemic levels while our countercyclical Right

Management business is currently experiencing significant gross profit growth.

As I mentioned, I recently spent time with clients and our leaders in Asia and Latin America where the economic outlook in both regions continues to be strong. Business conditions are especially conducive to an increased demand for our temporary staffing services. This is very evident across most of our Latin America businesses where, just last week, I had the pleasure of celebrating the 60th anniversary of our very successful business in Chile.

As global supply chains normalize and China reopens, the growth outlook in the APME region is also very bright. Japan, our largest business in the APME region, and fifth largest globally, has been extremely resilient post-pandemic and our business is continuing a strong track-record of revenue and profit growth. In fact, our Japan business has had 34 consecutive quarters of constant currency growth which is remarkable. Congratulations to the Japanese leadership team, who have been laser focused on the growth sectors based on the data and trends we have been predicting and tracking for many years.

Specific to *Digitization*, in Q1, we further expanded our global PowerSuite technology platform with the launch of PowerSuite Next for Right Management in the U.S., Canada, U.K. and Australia, with all main Right Management operations planning to be onboarded by the end of 2023. This B2C platform provides talent career development and outplacement services with personalized virtual coaching, curated self-help resources, upskilling and job matching.

Furthermore, we're delighted that Right Management was named a Global Leader and Star Performer in Everest Group's recent Outplacement and Career Transition Services PEAK Matrix® Assessment, scoring highly for investments in internal transitions and redeployment offerings, and the creation of a strategic road map for the digital delivery of its services.

This year, 2023, we celebrate our 75th anniversary, and throughout our history, we have been at the forefront of innovation helping businesses and workers adapt to new technologies, economic shifts and social trends. We have never hesitated to move quickly to take advantage of new opportunities. Our experienced leadership team is poised to pivot to where growth lies and our breadth of diversified solutions across geographic markets will continue to set us apart and help our clients and candidates win in the changing world of work.

Our belief that meaningful and sustainable employment has the power to change the world remains central to all we do. In March, we were recognized as one of the World's Most Ethical Companies by Ethisphere for the 14th time - the only firm in the industry to be recognized for more than a decade for playing a critical role in driving positive change in societies and communities around the world.

As always, we know that a key driver of our success is our great team that doubles down on our priorities and remains focused on the path forward, and I'd like to close by thanking our entire ManpowerGroup employee base for their efforts and contributions. Our DDI strategy and our purpose remains our North Star and being disciplined in our execution is how we will continue to strengthen our capabilities and lay the foundation to create long-term sustainable value for our shareholders.

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