ManpowerGroup
Prepared Remarks Transcript
Q4 2022 CONFERENCE CALL

SLIDE 1 – Jonas Prising

Welcome to the fourth 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 fourth quarter results and guidance for the first 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.

Over the last three weeks, I spent time with our leadership teams across the world for our annual Strategic Roadshows, as well as with clients in Europe, before attending the World Economic Forum annual meeting in Davos, Switzerland.

From these conversations with our teams, our clients and global leaders we get insights on the current environment and near-term outlook. This complements our own real-time business data on the current environment and forward-looking research.

The economic headwinds and increased caution by employers due to an uncertain economic outlook are resulting in softening hiring behaviors. We see this through extended recruiting and sales cycles and softer order flow with employers in certain sectors, as they are exercising more caution in their demand for contingent and permanent recruitment of talent. That said, they are also focused on holding on to business-critical talent while adding headcount for in-demand skills, whether that is supply chain workers or highly skilled professional skills talent and as a result, labor markets remain strong overall and we still see good order flow and opportunities in various markets and brands.

Turning to our financial results, in the fourth quarter revenue was $4.8 billion, down 1% year over year in constant currency. Our reported EBITA for the quarter was $110 million. Adjusting for the U.S. acquisition integration costs, restructuring costs, and other special items which we will cover in the financial review, EBITA was $167 million, representing a flat trend in constant currency year over year. Reported EBITA margin was 2.3%, and adjusted EBITA margin was 3.5%. Earnings per diluted share was $0.95 on a reported basis and $2.08 on an adjusted basis. Adjusted earnings per share increased 8% year over year in constant currency.

SLIDE 4 – Jonas Prising

Turning to the full year results for a few moments, reported earnings per share for the year was $7.08. As adjusted, earnings per share was $8.52 and represented a constant currency increase of 31%. Revenues for the year increased 5% in constant currency to $19.8 billion, and reported EBITA was $619 million. As adjusted, EBITA was $698 million which represented a 22% constant currency increase year over year.

In the fourth quarter we experienced softening in demand in some sectors and markets, especially in the US and Europe. Our own quarterly forward-looking ManpowerGroup Employment Outlook Survey of approximately 40,000 employers in more than 40 countries (which was conducted in November) indicates that good hiring momentum is expected to continue for Q1 2023 especially in IT, Finance, Energy and Life Sciences, with softening hiring intent emerging in Europe and, to a lesser extent, in the US, both weaker in hiring intent quarter over quarter and year over year.

And while the headlines may be dominated by tech company layoffs – we see this more as a recalibration of their workforces as a result of bullish hiring post pandemic. In the wider spectrum of all industries, we are seeing more companies begin to tap the brakes while others have their foot hovering above the brake pedal.

Even in this more cautious environment, there remain areas of good demand for our services, such as IT skills within our Experis business, higher margin skills within our Manpower business, RPO, MSP and Right Management and we are focused on delivering into these market opportunities.

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

SLIDE 3 – Jack McGinnis

Thanks, Jonas.

Going back to the quarterly results on slide 3, revenues in the fourth quarter came in at the low-end of our constant currency guidance range. Gross profit margin came in at the mid-point of our guidance range. As adjusted, EBITA was $167 million, flat in constant currency compared to the prior year period. As adjusted, EBITA margin was 3.5% and came in just below our guidance range and was flat 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 a 10% swing between the U.S. 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 decreased 1%. Due to the impact of net dispositions decreasing revenue about half a percent and fewer billing days, organic days-adjusted revenue was flat in the quarter compared to our guidance of +2% at the midpoint. The lower revenue trend reflected a deteriorating environment during the fourth quarter, particularly across Europe and North America.

SLIDE 5 – Jack McGinnis

Turning to the EPS bridge on slide 5, reported earnings per share was $0.95 which included $1.13 related to restructuring costs, final integration costs from the U.S. Experis acquisition, and other special items consisting of a loss on sale of our Hungary business and non-cash charges consisting of goodwill impairment and pension settlement costs. Excluding the restructuring costs and other special items, adjusted EPS was $2.08. Walking from our guidance mid-point, our results included a softer operational performance of 19 cents, slightly lower weighted average shares due to share repurchases in the quarter which had a positive impact of 1 cent, a lower effective tax rate which had a positive impact of 2 cents, a foreign currency impact that was 8 cents better than our guidance due to the strengthening of the euro and the pound during the quarter, and other expenses had a positive 1 cent impact.

SLIDE 6 – 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 decline of 1%, the Experis brand was flat, and the Talent Solutions brand reported revenue growth of 7%. Within Talent Solutions we continue to see year over year revenue growth in RPO as permanent hiring trends remained solid across our key markets during the quarter. Our MSP business saw a modest revenue decline in the quarter as we reduced certain lower margin activity, while Right Management experienced a double-digit percentage revenue increase on higher outplacement volumes in the quarter compared to the extremely low levels in the prior year.

SLIDE 7 – Jack McGinnis

Looking at our gross profit margin in detail, our gross margin came in at 18.2%. Staffing margin contributed a 30 basis point increase driven by our Manpower businesses. Permanent recruitment, including Talent Solutions RPO, contributed a 20 basis point GP margin improvement as hiring activity contributed to high single digit increases in gross profit year over year. Project and other solutions related services within Experis resulted in a 20 basis point margin increase. Right Management career transition and MSP within Talent Solutions contributed 20 basis points of improvement and other items represented a positive 10 basis points.

SLIDE 8 – 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 26%, and Talent Solutions comprised 17%.

During the quarter, our consolidated gross profit grew by 3% 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 increased 3% in constant currency year over year. This reflects strong growth in higher margin solutions as well as growth in permanent recruitment.

Organic gross profit in **Talent Solutions** increased 11% in constant currency year over year. This was driven by double digit GP percentage growth in both RPO and Right Management. MSP experienced solid GP growth and significant margin improvement as we improved the mix of business during the quarter.

SLIDE 9 – Jack McGinnis

Reported SG&A expense in the quarter was $775 million. Excluding restructuring costs and other special items, SG&A was 4% higher year over year on an organic constant currency basis which is down from the 9% growth in the third quarter on this same basis. This reflects a balance of cost reductions in areas of slowing demand while we continue to invest in growth opportunities, most notably in Experis, Talent Solutions, and specialty skills in Manpower. The underlying increases consisted of operational costs of $31 million, incremental costs related to net acquisitions and dispositions of businesses of $2 million, offset by currency changes of $62 million. Adjusted SG&A expenses as a percentage of revenue represented 14.6% in constant currency in the fourth quarter. I'll discuss goodwill impairment as part of Northern Europe segment review. Integration costs, a small loss on sale and modest restructuring costs totaled $7 million.

SLIDE 10 – Jack McGinnis

The **Americas** segment comprised 25% of consolidated revenue. Revenue in the quarter was $1.2 billion, flat compared to the prior year period on a constant currency basis. Reported OUP was $58 million and includes $4 million of final acquisition integration costs on the completion of the U.S. acquisition integration as well as some small restructuring costs. As adjusted, OUP was $62 million and OUP margin was 5.3%.

SLIDE 11 – Jack McGinnis

The **U.S.** is the largest country in the Americas segment, comprising 69% of segment revenues. Revenue in the U.S. was $819 million during the quarter, representing a 3% days-adjusted decrease, compared to the prior year.

As adjusted to exclude acquisition integration and restructuring costs, OUP for our U.S. business was $45 million in the quarter representing a decrease of 15%. As adjusted, OUP margin was 5.5%.

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 8% on a days-adjusted basis during the quarter, representing a decline from the 3% growth rate in the third quarter. Manufacturing PMI in the U.S. steadily decreased during the fourth quarter from above 50 in October to the 48 range in December. 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 46% of gross profit in the quarter. Within Experis in the U.S., IT skills comprised approximately 90% of revenues. Experis U.S. revenue growth on a days-adjusted basis represented 1% as we anniversaried very strong growth in the year-ago period. The integration activities for our acquired U.S. Experis business were successfully completed during the quarter.

Talent Solutions in the U.S. contributed 29% of gross profit and experienced revenue decline of 4% in the quarter. This was driven by a decrease in RPO revenues in the U.S. as permanent hiring programs softened in the fourth quarter and we anniversaried dramatic growth in the prior year. Although RPO programs are slowing in the current environment, fourth quarter RPO revenues were well above pre-pandemic levels. The U.S. MSP business saw a modest revenue decline as we reduced some lower margin activity, while outplacement activity within our Right Management business drove significant revenue increases.

In the first quarter of 2023, we expect a slightly higher rate of year over year revenue decline as compared to the fourth quarter trend in the U.S. which reflects the current environment and represents some further softening across Manpower, Experis and RPO.

SLIDE 12 – 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. Reported OUP for our Southern Europe business was $106 million in the quarter. As adjusted, OUP margin was 5.1%.

SLIDE 13 – Jack McGinnis

France revenue comprised 57% of the Southern Europe segment in the quarter and increased 2% in days-adjusted organic constant currency. As adjusted, OUP for our France business was $59 million in the quarter representing an organic increase of 3%. As adjusted, OUP margin was 4.9%.

The business in France continues to operate in a very low growth environment based on supply-chain impacts from the ongoing Russia-Ukraine war and broader inflationary pressures. Activity in January 2023 indicates further softening.

We are estimating the year over year constant currency revenue growth rate in the first quarter for France to be slight growth to flat based on January activity trends.

Revenue in **Italy** equaled $413 million in the quarter reflecting an increase of 1% on a days-adjusted constant currency basis. OUP equaled $29 million and OUP margin was 7.1%. As we continue to anniversary significant revenue growth in the prior year period, we estimate that Italy will have a slightly lower constant currency year over year revenue trend in the first quarter compared to the fourth quarter.

SLIDE 14 – Jack McGinnis

Our **Northern Europe** segment comprised 20% of consolidated revenue in the quarter. Revenue of $973 million represented a 3% decline in organic constant currency. OUP represented $16 million and adjusted OUP margin was 1.7%.

SLIDE 15 – 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% on a days-adjusted constant currency basis. This reflects a slightly higher rate of decline from the third quarter trend. We expect a similar year over year revenue trend in the first quarter compared to the fourth quarter.

In **Germany,** revenues decreased 3% in days-adjusted constant currency in the fourth quarter, a significant improvement from the third quarter trend. We continue to take actions to improve our Germany business and have progressed various initiatives focused on business mix and operational improvements. Overall, in the first quarter we are expecting a slightly improved year over year revenue trend compared to the fourth quarter trend.

The **Netherlands** is one of our smaller businesses in Northern Europe. The revenue decrease in the fourth quarter of 5% days-adjusted constant currency was a slight improvement from the third quarter trend on this same basis. Based on the prolonged decline in revenues in the Netherlands, increased interest rates and the worsening economic conditions we updated our goodwill impairment assessment at year end which concluded in a non-cash impairment charge of $50 million. Having said that, we have taken various actions in the Netherlands which have recently improved profitability and we expect further improvement in 2023.

SLIDE 16 – Jack McGinnis

The **Asia Pacific Middle East** segment comprises 12% of total company revenue. In the quarter, revenue grew 8% in constant currency to $579 million. OUP was $23 million and OUP margin, as adjusted, was 4.0%.

SLIDE 17 – Jack McGinnis

Our largest market in the APME segment is **Japan**, which represented 46% of segment revenues in the quarter. Revenue in **Japan** grew 11% in constant currency, or 12% 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 first quarter.

SLIDE 18 – Jack McGinnis

I'll now turn to cash flow and balance sheet. In full year 2022, free cash flow equaled $348 million compared to $581 million in the prior year. In the fourth quarter, free cash flow represented $115 million compared to $238 million in the prior year.

At year end, days sales outstanding increased about half a day to 56 days. During the fourth quarter, capital expenditures represented $20 million.

During the fourth quarter we repurchased 376,000 shares of stock for $25 million. As of December 31st, we have 2 million shares remaining for repurchase under the share program approved in August of 2021.

SLIDE 19 – Jack McGinnis

Our balance sheet ended the quarter with cash of $639 million and total debt of $987 million. Net debt equaled $348 million at quarter-end. Our debt ratios at quarter-end reflect total adjusted gross debt to trailing twelve months Adjusted EBITDA of 1.32 and total debt to total capitalization at 29%.

SLIDE 20 – 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 enter 2023 with a very strong balance sheet.

SLIDE 21 – Jack McGinnis

Next, I'll review our outlook for the first quarter of 2023. Based on trends in the fourth quarter and January activity to date, our forecast is cautious and anticipates that the challenging environment will continue through the first quarter. We are forecasting underlying earnings per share for the first quarter to be in the range of $1.61 to $1.71, which includes an unfavorable foreign currency impact of 15 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 3% and an increase of 1% and at the midpoint represents a 1% decrease. There is no meaningful impact for acquisitions and dispositions but there is an increase in billing days year over year bringing the days-adjusted constant currency decrease to 2.5% at the mid-point. This represents a decrease from the flat fourth quarter revenue trend on this same basis.

We expect our EBITA margin during the first quarter to be down 30 basis points at the midpoint compared to the prior year.

We estimate that the effective tax rate for the first quarter to be 29.5% and the full year of 2023 to be 29.0%. This reflects the enacted decrease in the French Business Tax that I mentioned last quarter and our latest estimate of mix of country earnings.

As usual, our guidance does not incorporate restructuring charges or additional share repurchases and we estimate our weighted average shares to be 51.5 million.

I will now turn it back to Jonas.

SLIDE 21 – Jonas Prising

Thank you, Jack.

As we wrap up our reporting of 2022 and begin 2023, I would like to provide an update on our DDI strategy - Diversification, Digitization and Innovation – and acceleration plans which together with continued investments in our technology roadmap, are strengthening our capabilities to capture higher margin opportunities and create long term sustainable value.

On Diversification – we are making excellent progress shifting our mix to higher margin businesses within and across all of our brands, ensuring our clients have the talent and workforce strategy to adapt quickly to market shifts as they happen. We are also very pleased with the completion of our rapid and successful integration of our ettain acquisition into our Experis business, and we are starting 2023 with a very strong position in the US IT Professional Resourcing and Services market. We also see strength in the Experis brand globally, positioning us to capitalize on the growing global professional IT resourcing market. Our industry leadership and star performer status in both Experis and Talent Solutions RPO and MSP offerings has also been recognized in 2022 by Everest Group as discussed in the recent quarters.

On Digitization - We continue to make excellent, industry-leading progress on our technology roadmap. Last year, I communicated that we had completed PowerSuite cloud enabled front office implementations in 22 markets. I am pleased to report that in 2022 we have implemented PowerSuite in 11 additional markets and are in-flight in six more markets as we speak. By the end of 2023, we will have substantially all of our major businesses on this leading platform. During 2022 we have further strengthened our mobile app leadership position in France and advanced our Associate app in various other key markets with more countries being added in 2023. Our global Enterprise Data Lake is in place for our top three markets, France, US, and Italy, further strengthening our business insights to clients and improving our candidate experience, all of which is a critical to our B2C – Business to Candidate - strategy at a time when talent shortages remain high. Our Back Office cloud-enabled infrastructure projects are also driving efficiencies and improving our processes.

On Innovation – our engine for growth – we are making great progress on leveraging our PowerSuite technology stack here too and are accelerating the deployment and adoption of our AI-based recruitment tools and machine learning to enhance recruiter productivity – to be more data and insight-driven to find the best talent match quickly and focus on activities that create the most value for our candidates, associates and clients.

As we continue to differentiate our higher value services, we are increasingly focused on being Creators of Talent at Scale, by expanding our "talent engine" offerings across our brands, and for our internal employees and associates. Our Talent Academy is recruiting and training our own new talent to be experts in key skills and industry verticals, including IT. Our Experis Academy, now active across 14 markets, is providing intensive 'role-ready' tech training and coaching for our Experis consultants especially in Cloud and Infrastructure, Business Transformation Services and Digital Workspace specialist skills so we can find or create the best talent which our clients need. And our Manpower MyPath has boosted the employability of almost 200,000 temporary associates in 15 markets, increasing recruiter productivity, achieving higher reassignment rates, stronger Net Promoter Scores and driving higher GP margin across Specializations. In addition to this we engage in many more training initiatives at a local country level as well.

SLIDE 22 – Jonas Prising

We are also making excellent progress with our Working to Change the World ESG plans, recognized in 2022 for our impact across Planet, People & Prosperity and Principles of Governance. ESG is increasingly important to our clients, associates and employees, as they choose with whom to work or be associated with.

We earned an A minus rating in this year's Carbon Disclosure Project survey, driven by our Science Based Target Initiative validated emission reduction targets. We maintained our industry-leading Sustainalytics score, were included on the Dow Jones Sustainability Index for the 14th year, recognized by Newsweek as one of America's Most Responsible Companies for the 4th year, and ranked in the top half within the Wall Street Journal's Top 250 Best-Managed companies by the Drucker Institute, scoring highly for customer satisfaction, innovation and social responsibility. All of which reinforces our reputation as a leading organization with strong performance in the areas of environment, social, and corporate governance and our talented teams should be proud.

SLIDE 23 – Jonas Prising

In closing, we have seen the broader economic environment soften over the past months. This has translated into lower demand for our services in some markets, which we expect will continue. However, we still continue to see good demand for specific skills and industry verticals that support growth in our higher margin offerings. We are very confident in our ability to manage this dichotomy of market opportunity as we have done many times in the past and will adjust our resources as we see the market evolve going forward. Longer term we remain convinced that in this fast-changing, post-pandemic landscape our clients' workforce transformation needs will grow, the value of data and insight will increase, and building the right blend of people and tech will be even more critical. We are confident that our DDI strategies and excellent progress positions us to leverage these opportunities and more to accelerate profitable growth and value creation.

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