ManpowerGroup
Earnings Call Prepared Remarks Transcript
Q2 2024 CONFERENCE CALL

SLIDE 1 – Jonas Prising

Welcome and thank you for joining us for our second quarter 2024 conference call. 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 2024. 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

Thank you, Jack.

We are speaking with you today from our global Headquarters in Milwaukee, Wisconsin. All eyes are on our city this week as it hosts one of the major events on the US political calendar. Just a few days ago, we were pleased to welcome ambassadors from around the world to a breakfast event. During our time together, we discussed the labor market in their countries, particularly as many of them are undergoing shifts in the political landscape.

Based on these conversations and with business leaders worldwide, it is evident that we are in rapidly changing times—geopolitical uncertainty persists, technology continues to advance, and the economic rule book is still being rewritten post-pandemic.

Still, labor markets remain solid in many areas, with relatively low unemployment and layoff activity. Our most recent employment outlook survey of over 40,000 employers this spring found that hiring confidence is holding steady at lower levels compared to a year ago, as economic uncertainty continues to give employers pause, and economies in Europe and North America are gradually cooling, with inflation moderating.

Many large enterprise clients are prioritizing hiring for the core skills they need and holding onto the skilled workers they have. At the same time, while the promise of AI is yet to be realized, it is front of mind for businesses across every industry. We are convinced that the potential of AI at scale will only be realized when it augments human capabilities and skills. Many companies recognize this need and are developing their current workforce, while selectively adding new talent. Priority is placed on retaining and attracting workers with specialized, flexible skills and an adaptable mindset to adjust to the evolving requirements in the workplace. This focus on workforce development to maximize potential is more evident now than ever.

Our business operates at the intersection of worker preferences and employer priorities. Our research tells us that more than 6 in 10 believe AI and machine learning will have a positive impact on business performance and 70% plan to boost upskilling efforts accordingly. Our surveys also tell us that 43% of workers feel neutral or negative about AI's impact on their jobs and futures. We have an opportunity to guide both employers and workers through this moment of transformation. Through our partnerships with clients, we believe this is a significant opportunity for us: finding skilled talent and bridging the skills gaps across industries with our Manpower MyPath and Experis Academy training programs.

While we have seen a growing focus on workforce retention and development, we have not yet seen the inflection point of widespread demand improvement – though we have seen underlying soft staffing trends broadly stabilize in North America and Europe, with Asia and Latin America continuing to hold up well.

We are convinced that our focus on specialized skills in our Manpower business is the right strategy and early results demonstrate increased demand for mid-level skills within several key end-market verticals such as automotive, aerospace and logistics.

Turning to our results, in the second quarter revenue was $4.5 billion, down 3% year over year in constant currency. Our reported EBITA for the quarter was $109 million. Adjusting for final run-off charges of our Proservia business in Germany, EBITA was $112 million, representing a decrease of 9% in constant currency year over year. Reported EBITA margin was 2.4%, and adjusted EBITA margin was 2.5%. Earnings per diluted share was $1.24 on a reported basis, while earnings per diluted share was $1.30 on an adjusted basis. Adjusted earnings per share decreased 12% year over year in constant currency.

Although the environment continues to be challenging, our business and our people are resilient. Our diversified business mix and geographic footprint are serving us well. We are confident that our strategies are positioning us well for future profitable growth. We continue to reimagine our workflows and processes with the goal to enhance our future productivity and ROI. And we continue to serve as an expert guide for our clients as they adapt to a changing environment.

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

SLIDE 3 – Jack McGinnis

Thanks, Jonas.

Revenues in the second quarter came in slightly above the mid-point of our constant currency guidance range. As adjusted, gross profit margin came in slightly below our guidance range on slightly lower than expected permanent recruitment activity. As adjusted, EBITA was $112 million, representing a 9% decrease in constant currency compared to the prior year period. As adjusted, EBITA margin was 2.5% and came in at the midpoint of our guidance range, representing 20 basis points of decline year over year.

During the quarter, year over year foreign currency movements had an impact on our results. Foreign currency translation drove a three and a half percent unfavorable impact to the U.S. dollar reported revenue trend in addition to the constant currency decrease of 3%. Organic days-adjusted constant currency revenue decreased 4% in the quarter, in-line with our guidance.

SLIDE 4 – Jack McGinnis

Turning to the EPS bridge, reported net earnings per share was $1.24 which included $0.06 related to the run-off of our Proservia managed services business in Germany. I am pleased to report the financial impact of the wind down of the Germany Proservia business is now complete and will not impact our results in future quarters. Excluding the Proservia run-off costs, adjusted EPS was $1.30 and came in slightly above the midpoint of our guidance range. Walking from our guidance mid-point, our results included a stronger operational performance of 2 cents, lower weighted average shares due to share repurchases in the quarter which had a positive impact of 1 cent, a higher tax rate on country mix which had a negative impact of 3 cents, a foreign currency impact that was 1 cent worse than our guidance and interest and other expenses had a positive impact of 2 cents.

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 declined by 2% in the quarter, the Experis brand declined by 7%, and the Talent Solutions brand had a revenue decline of 9%. Within Talent Solutions, our RPO business experienced a year-over-year revenue decline which was a slight improvement from the trend from the first quarter. Our MSP business revenues increased compared to the prior year period reflecting sequential improvement from the first quarter trend, while Right Management also experienced year-over-year revenue growth on higher outplacement volumes in the quarter.

SLIDE 6 – Jack McGinnis

Looking at our gross profit margin in detail, our gross margin came in at 17.4% for the quarter. Staffing margin contributed a 10 basis point reduction due to mix shifts and lower volumes while pricing remained solid. Permanent recruitment, including Talent Solutions RPO, contributed a 50 basis point GP margin reduction as permanent hiring activity in the second quarter decreased year over year. During the quarter, we saw a greater than expected slowing in permanent recruitment, particularly in Europe, contributing to a slightly higher drag on our gross profit margin. Right Management career transition within Talent Solutions contributed 10 basis points of improvement as outplacement activity continued to be solid in the second quarter. Other items resulted in a 10 basis point margin increase.

SLIDE 7 – Jack McGinnis

Moving onto our gross profit by business line. During the quarter, the Manpower brand comprised 60% of gross profit, our Experis professional business comprised 24%, and Talent Solutions comprised 16%.

During the quarter, our consolidated gross profit decreased by 6% on an organic constant currency basis year over year, representing an improvement from the 9% decline in the first quarter.

Our **Manpower** brand reported an organic gross profit decrease of 4% in constant currency year over year, an improvement from the 6% decline in the first quarter.

Gross profit in our **Experis** brand decreased 7% in organic constant currency year over year, an improvement from the 16% decrease in the first quarter.

Gross profit in **Talent Solutions** decreased 11% in organic constant currency year over year, representing a stable trend from the first quarter. Although RPO volumes were slightly lower in the second quarter compared to the previous quarter, MSP delivered an improved GP trend from the first quarter while Right Management achieved GP growth on solid outplacement activity.

SLIDE 8 – Jack McGinnis

Reported SG&A expense in the quarter was $685 million. Excluding the run-off of our Germany Proservia business, SG&A was 5% lower year over year on a constant currency basis. This reflects an average organic headcount during Q2 that was an 11% reduction compared to the year-earlier period. We expect our digitization strategy focused on transforming back-office functions will drive further cost efficiencies and our corporate expenses reflect this investment. These strategic investments are progressing nicely and are expected to drive medium and long-term productivity and efficiency enhancements across our technology and finance functions worldwide through shared service centers leveraging leading global technology platforms. The underlying year-over-year SG&A decreases largely consisted of reductions in operational costs of $36 million and currency changes of $20 million. Adjusted SG&A expenses as a percentage of revenue represented 15.0% in constant currency in the second quarter. The final Proservia Germany run-off expense represented $2M.

SLIDE 9 – Jack McGinnis

The **Americas** segment comprised 24% of consolidated revenue. Revenue in the quarter was $1.1 billion, representing an increase of 5% compared to the prior year period on a constant currency basis. OUP was $45 million and OUP margin was 4.2%.

SLIDE 10 – Jack McGinnis

The **U.S.** is the largest country in the Americas segment, comprising 65% of segment revenues. Revenue in the U.S. was $697 million during the quarter, representing a 2% days-adjusted decrease, compared to the prior year.

OUP for our U.S. business was $27 million in the quarter representing an increase of 16% after adjusting the prior year for minor restructuring costs. OUP margin was 3.9%.

Within the **U.S.,** the Manpower brand comprised 24% of gross profit during the quarter. Revenue for the Manpower brand in the U.S. decreased 2% during the quarter, which was an improvement from the 13% decline in the first quarter.

The Experis brand in the U.S. comprised 47% of gross profit in the quarter. Within Experis in the U.S., IT skills comprised approximately 90% of revenues. Experis U.S. revenue decreased 3% days adjusted during the quarter, an improvement from the 6% decline in the first quarter. The U.S. Experis business experienced significant healthcare IT go-live project volumes in the second quarter that are not expected to recur into the third quarter.

Talent Solutions in the U.S. contributed 29% of gross profit and experienced revenue decline of 2% in the quarter, stable from the 2% decline in the first quarter. RPO revenue declines in the U.S. reflected a further softening of permanent hiring programs in the second quarter compared to the first quarter. The U.S. MSP business accomplished a solid revenue increase representing an improvement from the first quarter, while outplacement activity within our Right Management business experienced stable trends year over year.

In the third quarter of 2024, we expect the revenue decline to be slightly higher than the second quarter decline for our overall US business largely due to the completion of the healthcare IT go live projects in the second quarter.

SLIDE 11 – Jack McGinnis

Southern Europe revenue comprised 46% of consolidated revenue in the quarter. Revenue in Southern Europe was $2.1 billion, representing a 4% decrease in constant currency. OUP for our Southern Europe business was $83 million in the quarter and OUP margin was 4.0%.

SLIDE 12 – Jack McGinnis

France revenue comprised 56% of the Southern Europe segment in the quarter and decreased 6% in days-adjusted constant currency. OUP for our France business was $40 million in the quarter representing a decrease of 18% on a constant currency basis. OUP margin was 3.4%.

Activity to date in July 2024 is largely consistent with trends experienced in the second quarter. We are estimating the year over year constant currency revenue trend in the third quarter for France to reflect a slight improvement in the rate of decline from the second quarter trend based on the step down in the prior year period.

Revenue in **Italy** equaled $435 million in the second quarter reflecting a decrease of 4% on a days-adjusted constant currency basis. OUP equaled $34 million and OUP margin was 7.8%. We estimate that Italy will also have a slightly improved constant currency revenue trend in the third quarter compared to the second quarter.

SLIDE 13 – Jack McGinnis

Our **Northern Europe** segment comprised 18% of consolidated revenue in the quarter. Revenue of $837 million represented a 12% decline in constant currency. As adjusted to exclude the run-off Proservia Germany business, OUP was $1 million and OUP margin was 0.1%.

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 15% on a days-adjusted constant currency basis. This reflects a slight worsening in the rate of decline from the first quarter on this same basis. We expect a slightly improved rate of revenue decline in the third quarter compared to the second quarter.

In **Germany,** revenues decreased 18% in days-adjusted constant currency in the quarter. Our German business revenue trend was impacted by select plant closures in the automotive sector during the second quarter. As previously reported, the financial impact of the wind down of our Proservia managed services business in Germany was completed during the quarter. In the third quarter, we are expecting an improved year-over-year revenue decline compared to the second quarter.

SLIDE 15 – Jack McGinnis

The **Asia Pacific Middle East** segment comprises 12% of total company revenue. In the quarter, revenues equaled $541 million representing a decrease of 1% in organic constant currency. OUP was $25 million and OUP margin was 4.6%.

SLIDE 16 – Jack McGinnis

Our largest market in the APME segment is **Japan**, which represented 51% of segment revenues in the quarter. Revenue in **Japan** grew 9% on a days-adjusted constant currency basis. We remain very pleased with the consistent 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 second quarter, similar to the prior year seasonal dynamic, free cash flow represented an outflow of $150 million during the quarter and compares to a cash outflow of $177 million in the prior year. As in the prior year, the outflow was driven by the timing of payables and timing of payments within our large MSP business.

At quarter-end, days sales outstanding decreased by about 3 days to 56 days. During the second quarter, capital expenditures represented $12 million. During the second quarter we repurchased 371,000 shares of stock for $27 million. As of June 30th, we have 3.6 million shares remaining for repurchase under the share program approved in August of 2023.

SLIDE 18 – Jack McGinnis

Our balance sheet ended the quarter with cash of $469 million and total debt of $1.1 billion. Net debt equaled $630 million at quarter-end. Our debt ratios at quarter-end reflect total gross debt to trailing twelve months

Adjusted EBITDA of 2.3 and total debt to total capitalization at 34%. Our Debt and credit facilities arrangements remained unchanged during the quarter as displayed in the appendix of the presentation.

SLIDE 19 – Jack McGinnis

Next, I'll review our outlook for the third quarter of 2024. Based on trends in the second quarter and July activity to date, our forecast anticipates that the third quarter will continue to be challenging in North America and Europe. Our forecast for Q3 also anticipates ongoing low levels of permanent recruitment activity. With that said, we are forecasting earnings per share for the third quarter to be in the range of $1.25 to $1.35. The guidance range also includes an unfavorable foreign currency impact of 5 cents per share and our foreign currency translation rate estimates are disclosed at the bottom of the guidance slide.

Our constant currency revenue guidance range is between a decrease of 4% and flat and at the midpoint is a 2% decrease. Although the impact of net dispositions is slight there are slightly more working days in the third quarter this year contributing to one percent additional decrease on an organic days-adjusted constant currency basis representing a 3% decrease at the mid-point. This represents a slight improvement compared to the second quarter trend on this same basis.

EBITA margin for the third quarter is projected to be flat at the midpoint compared to the prior year.

We estimate that the effective tax rate for the third quarter will be 34% which reflects the overall mix effect of lower earnings from lower tax geographies in the current environment.

As usual, our guidance does not incorporate restructuring charges or additional share repurchases and we estimate our weighted average shares to be 48.5 million. Our guidance also does not include the impact of the non-cash hyperinflationary balance sheet related currency translation adjustment for our Argentina business and we will also report that separately if it is a meaningful amount. I will now turn it back to Jonas.

SLIDE 20 – Jonas Prising

Thank you, Jack.

We are committed to adjusting our portfolio, managing costs while making strategic investments in the areas we predict will shift the needle. We remain confident in our Diversification, Digitization and Innovation strategy and are making good progress. In digitization - we see the potential for AI to produce new workflows, streamline processes and improve the candidate experience. We are already making progress in these efforts with pilots in our recruiter platforms where we are integrating Gen AI prompts and taking a learn, adapt and scale approach.

Our rich global data will fuel better insights for our clients and candidates, and the work we are doing to consolidate data globally and reskill workers in the age of AI is a critical step in building a foundation that is future fit. We know our clients value our expertise in this area and turn to us for guidance. In May, we showcased our innovations at VivaTech in Paris, the premier European tech and start-up conference. Over 100 clients visited our ManpowerGroup France headquarters to discuss the transformation of recruiting and how human capabilities are at the heart of how the future of work will evolve in the AI era.

We know clients choose to work with us because our strong brands Manpower, Experis and Talent Solutions are proven global leaders. In June, Talent Solutions was named a global leader in Recruitment Process Outsourcing by Everest Group for the 14th year. Everest recognized our strong vision and strategy, the quality of our recruiters and continued investments in innovation.

While consecutive recognitions prove we are consistent in the quality of our services and delivery strength, new accolades show we are committed to pushing ourselves to achieve more. Recently, we were named by *Time Magazine* as a World's Most Sustainable Company, the only company in our industry to be recognized and in the top ten for professional services. For us, sustainability is not a trend or a marketing slogan– it's about growing our business in partnership with our clients, while helping people be successful and also caring for the planet which is vital for our shared future prosperity. Job seekers, clients, and partners choose to work with us because of these values and this recognition is a result of our sustainability champions' data-driven approach worldwide, as we strive for more transparent reporting and higher global standards year after year.

With that, I'd like to close by thanking our clients, candidates and investors for placing their trust in us, and our people for dedicating their time and skills to us. Operator, please open the line for Q&A….