ManpowerGroup
Earnings Results Transcript
Q4 2023 CONFERENCE CALL

SLIDE 1 – Jonas Prising

Welcome and thank you for joining us for our fourth quarter 2023 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 and the full year, then Jack will go through the fourth quarter results and guidance for the first 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.

Two weeks ago, I attended the World Economic Forum Annual Meeting in Davos, Switzerland. The themes from the meeting centered on the uncertain outlook for 2024 caused by increasing geopolitical tensions and slowing economic growth in many parts of the world. At the same time, AI was a major discussion topic, with many believing we are entering a new era of accelerated digital transformation with developments in AI holding the promise of accelerating productivity and growth.

Most organizations are just at the beginning of their AI journey – they are committed to responsible adoption of AI throughout their enterprise, yet they know they need data quality and infrastructure along with a skilled workforce to truly maximize its impact. Our own recent data finds 58% of employers believe AI will have a positive impact on their organization's headcount in the next two years and more than 70% cite training staff, finding qualified talent, and redefining roles as the top challenges to fully leverage the technology. We are committed to being a partner of choice for companies and people to navigate this significant transformation where the digital transition will require a skills transition at speed and scale.

Looking at our real-time data and research and following discussions with our teams around the world during our annual strategic roadshows, it is clear the outlook we have been predicting and tracking for the last few quarters continues to play out. Employers, particularly in large enterprise organizations, remain cautious, pausing on non-critical investments and postponing projects until more clarity on the outlook emerges.

Our industry is always the first to feel the impact of economic softening and this cycle is no different - as we have seen employers reduce their temporary and permanent hiring while lowering their project spend appetite. This is most noticeable in Europe and North America, and we haven't seen any inflection point yet of improving demand for our services and solutions in those regions. It is important to note that at the same time, we have seen signs of stabilization of activity at lower levels in certain markets and offerings. We have taken significant cost reduction actions to adjust our resources to the current environment in many markets, while maintaining the talent we need to take advantage of the market turnaround when it happens. We are confident in our ability to navigate this kind of environment and ensure that we are well positioned for profitable growth when demand improves.

Turning to our financial results, in the fourth quarter revenue was $4.6 billion, down 5% year over year in constant currency. Our reported EBITA for the quarter was $24 million. Adjusting for restructuring costs, non-cash impairment charges and other special items which we will cover in the financial review, EBITA was $116 million, representing a decrease of 30% in constant currency year over year. Reported EBITA margin was 0.5%, and adjusted EBITA margin was 2.5%. Losses per diluted share was $1.73 on a reported basis, while earnings per diluted share was $1.45 on an adjusted basis. Adjusted earnings per share decreased 30% year over year in constant currency.

In the fourth quarter, staffing gross profit margins remained resilient in a challenging environment. From a geographic perspective – we saw the continuation of a challenging environment in North America and Europe during the quarter, while demand for our services in LATAM and APME remained solid.

SLIDE 4 – Jonas Prising

Turning to the full year results for a few moments, reported earnings per share for the year was $1.76. As adjusted, earnings per share was $6.04 and represented a constant currency decrease of 28%. Revenues for the year decreased 4% in constant currency to $18.9 billion, and reported EBITA was $346 million. As adjusted, EBITA was $497 million, which represented a 27% constant currency decrease year over year.

Although no one can predict when conditions will improve, we can be certain that a skilled and agile workforce remains at the heart of an organization's ability to adapt and grow as they execute their business strategy. Companies also remember the difficulties they experienced trying to hire post-pandemic and they know they are not immune to demographic challenges presented by aging populations and persistent talent shortages. We are focused on helping them overcome these obstacles by finding the best talent in the market, today and into the future.

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

SLIDE 3 – Jack McGinnis

Thanks, Jonas.

Going back to the quarterly results on slide 3, revenues in the fourth quarter came in slightly above 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 $116 million, representing a 30% decrease in constant currency compared to the prior year period. As adjusted, EBITA margin was 2.5% and came in at the high-end of our guidance range, representing 100 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 one percent favorable impact to the U.S. dollar reported revenue trend compared to the constant currency decrease of 5%. Organic days-adjusted constant currency revenue also decreased 5% in the quarter.

SLIDE 5 – Jack McGinnis

Turning to the EPS bridge on slide 5, reported losses per share was $1.73 which included $3.18 related to restructuring costs, a non-cash goodwill impairment charge and other items. Excluding these costs, adjusted EPS was $1.45. Walking from our guidance mid-point, our results included a stronger operational performance of 10 cents, slightly lower weighted average shares due to share repurchases in the quarter 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 had a positive 11 cents 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 declined by 3% in the quarter, the Experis brand declined by 11%, and the Talent Solutions brand had a revenue decline of 14%. Within Talent Solutions, our RPO business experienced a year-over-year revenue decline in-line with the trend from the third quarter. Our MSP business also experienced revenue declines in the quarter as we continue to reduce certain lower margin activity, while Right Management experienced year-over-year revenue growth on higher outplacement volumes in the quarter.

SLIDE 7 – Jack McGinnis

Looking at our gross profit margin in detail, our gross margin came in at 17.5% for the quarter. Staffing margin contributed a 10 basis point reduction due to mix shifts as margins remained strong. Permanent recruitment, including Talent Solutions RPO, contributed a 60 basis point GP margin reduction as permanent hiring activity in the fourth quarter remained stable at lower levels consistent with third quarter trends. Right Management career transition within Talent Solutions contributed 20 basis points of improvement as outplacement activity continued to be solid in the fourth quarter. Other items resulted in a 20 basis point margin decrease.

SLIDE 8 – 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 8% on an organic constant currency basis year over year, representing a slight improvement from the 9% decline in the third quarter.

Our **Manpower** brand reported an organic gross profit decrease of 4% in constant currency year over year, representing a slight improvement from the 5% decline in the third quarter.

Gross profit in our **Experis** brand decreased 15% in organic constant currency year over year, representing a slight additional decline from the 14% decrease in the third quarter, driven by continental Europe.

Gross profit in **Talent Solutions** decreased 14% in organic constant currency year over year, representing a slight improvement from the 15% decline in the third quarter. The year-over-year decreases in RPO and MSP were partially offset by Right Management on increased outplacement activity.

SLIDE 9 – Jack McGinnis

Reported SG&A expense in the quarter was $850 million. Excluding restructuring costs, goodwill impairment and other items, SG&A was 4% lower year over year on a constant currency basis representing a sequential improvement from the 2% decline in the third quarter on this same basis. This reflects additional cost actions resulting in a further organic headcount reduction of 3% in the quarter and a year-over-year organic reduction at year end of 9%. At the same time, our corporate expense reflects our progression of the next phase of our digitization strategy focused on back-office functions. These strategic investments 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 SG&A decreases largely consisted of operational costs of $24 million offset by currency changes of $11 million. Adjusted SG&A expenses as a percentage of revenue represented 15.2% in constant currency in the fourth quarter. Restructuring costs and other items totaled $92 million with the largest component related to the wind down of our Proservia business in Germany. The goodwill impairment relates to our Netherlands business which experienced further market declines in recent quarters.

SLIDE 10 – Jack McGinnis

The **Americas** segment comprised 23% of consolidated revenue. Revenue in the quarter was $1.1 billion, representing a decrease of 4% compared to the prior year period on a constant currency basis. As adjusted, OUP was $40 million and OUP margin was 3.7%.

SLIDE 11 – Jack McGinnis

The **U.S.** is the largest country in the Americas segment, comprising 65% of segment revenues. Revenue in the U.S. was $702 million during the quarter, representing a 14% days-adjusted decrease, compared to the prior year.

As adjusted to exclude restructuring costs, OUP for our U.S. business was $21 million in the quarter representing a decrease of 54%. As adjusted, OUP margin was 3.0%.

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 16% on a days-adjusted basis during the quarter, which was a stable trend from the 16% decrease in the third quarter on the same basis.

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 13% during the quarter, a slight improvement from the 15% decline on this same basis in the third quarter.

Talent Solutions in the U.S. contributed 30% of gross profit and experienced revenue decline of 14% in the quarter, this was an improvement from the 18% decline in the third quarter. RPO revenue declines in the U.S. reflect ongoing lower levels of permanent hiring programs in the fourth quarter. The U.S. MSP business saw revenue decline as we continued to reduce some lower margin activity, while outplacement activity within our Right Management business drove strong revenue increases. In the U.S., RPO and MSP experienced an improved sequential rate of decline. Right Management in the U.S. experienced a stable level of revenues sequentially from the third quarter.

In the first quarter of 2024, we expect a smaller year over year revenue decline for our US business overall, as compared to the fourth quarter decline in the U.S. as we begin to anniversary the more significant pull back in demand in the year ago period.

SLIDE 12 – 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. As adjusted, OUP for our Southern Europe business was $94 million in the quarter and OUP margin was 4.5%.

SLIDE 13 – Jack McGinnis

France revenue comprised 57% of the Southern Europe segment in the quarter and decreased 4% in days-adjusted constant currency. As adjusted, OUP for our France business was $48 million in the quarter representing a decrease of 24%. As adjusted, OUP margin was 3.9%.

The business in France experienced an additional softening of revenues during the fourth quarter. Activity to date in January 2024 indicates a slight further decrease.

We are estimating the year over year constant currency revenue trend in the first quarter for France to be down slightly from the fourth quarter trend based on January activity trends.

Revenue in **Italy** equaled $415 million in the quarter reflecting a decrease of 3% on a days-adjusted constant currency basis. As adjusted, OUP equaled $32 million and OUP margin was 7.8%. We estimate that Italy will also 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 19% of consolidated revenue in the quarter. Revenue of $914 million represented a 10% decline in constant currency. After excluding restructuring costs and the goodwill impairment of our Netherlands business, adjusted OUP was $4 million and OUP margin was 0.4%. The largest component of the restructuring charges in the region are driven by Germany which I will discuss on the next slide.

SLIDE 15 – 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 13% on a days-adjusted constant currency basis. This reflects a slight improvement from the rate of decline from the third quarter. We expect a similar year-over-year revenue trend in the first quarter compared to the fourth quarter.

In **Germany,** revenues increased 4% in days-adjusted constant currency in the quarter, driven by our Manpower business. The previously announced wind down of our Proservia managed services business in Germany is largely complete having substantially agreed terms with applicable workers councils and impacted clients during the second half of 2023. The restructuring costs recorded in the quarter largely concludes the wind down related one-off costs for our Proservia business. We have some final client transition activity running off in the first half of 2024 which will generate operating losses which we will carve out separately for this discontinued business which I will discuss in our guidance. The wind down of our Proservia business removes a significant drag on our Germany operations and represents a significant step in strengthening the business for the future. In the first quarter, we are expecting a year-over-year revenue decline as certain automotive clients experience isolated supply chain related production slowdowns.

In the **Netherlands,** revenue decreased 8% on a days-adjusted constant currency basis and this represented a further rate of decline from the third quarter on this same basis. As previously referenced, based on the deteriorating market conditions in the Netherlands in recent quarters, we updated our goodwill impairment assessment at year end and recorded a non-cash impairment charge of $55 million. We continue to monitor our Netherlands business closely and are taking various actions to improve profitability.

SLIDE 16 – Jack McGinnis

The **Asia Pacific Middle East** segment comprises 12% of total company revenue. In the quarter, revenue was down 1% in organic constant currency to $552 million. OUP was $22 million. OUP margin was 3.9%, flat year over year.

SLIDE 17 – Jack McGinnis

Our largest market in the APME segment is **Japan**, which represented 51% of segment revenues in the quarter. Revenue in **Japan** grew 10% in constant currency, or 8% 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 2023, free cash flow equaled $270 million compared to $348 million in the prior year. In the fourth quarter, free cash flow represented $91 million compared to $115 million in the prior year.

At year end, days sales outstanding decreased about a day and a half to 54 days. During the fourth quarter, capital expenditures represented $23 million. During the fourth quarter we repurchased 695,000 shares of stock for $50 million. As of December 31st, we have 4.6 million shares remaining for repurchase under the share program approved in August of 2023.

SLIDE 19 – Jack McGinnis

Our balance sheet ended the year with cash of $581 million and total debt of $1 billion. Net debt equaled $421 million at year-end. Our debt ratios at year-end reflect total gross debt to trailing twelve months Adjusted EBITDA of 1.83 and total debt to total capitalization at 31%.

SLIDE 20 – Jack McGinnis

Our debt and credit facilities remained unchanged during the quarter.

SLIDE 21 – Jack McGinnis

Next, I'll review our outlook for the first quarter of 2024. Based on trends in the fourth quarter and January activity to date, our forecast is cautious and anticipates that the first quarter will continue to be challenging with further declines in our businesses in Europe which include expected lower seasonal bench utilization in the first quarter in certain markets such as the Nordics. Our forecast for Q1 also anticipates ongoing low levels of permanent recruitment activity. It is also important to note that there is typically a meaningful seasonal sequential decrease in earnings from the fourth quarter to the first quarter. With that said, we are forecasting earnings per share for the first quarter to be in the range of $0.88 to $0.98, which excludes a forecasted unfavorable impact of 14 cents related to the run-off of the discontinued Proservia Germany business which will cease activity after the second quarter. The guidance range also includes an unfavorable foreign currency impact of 2 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 8% and at the midpoint represents a 6% decrease. The impact of net dispositions and less working days contributes to an organic days-adjusted constant currency revenue trend of about a 5% decrease at the mid-point. This represents a similar rate of decrease from the fourth quarter trend on this same basis.

Excluding the discontinued Proservia run-off business impact on the first quarter of 2024, EBITA margin is projected to be down 100 basis points at the midpoint.

We estimate that the effective tax rate for the first quarter will be 31% which reflects the mix effect of lower earnings from lower tax geographies in the current environment with some expected offsetting tax items. We expect the full year 2024 effective tax rate to approximate 32.5% which incorporates a modest reduction in the French business tax as discussed last quarter and the current mix of earnings trends. When business in our lower rate geographies begins to improve, we expect the tax rate will begin to return to the lower underlying rate.

As usual, our guidance does not incorporate restructuring charges or additional share repurchases and we estimate our weighted average shares to be 49.2 million. Our guidance also does not include the impact of the non-cash currency translation adjustment for our hyperinflationary Argentina business, and we will also report that separately. I will now turn it back to Jonas.

SLIDE 22 – Jonas Prising

Thank you, Jack.

We have taken decisive actions to manage costs and improve our business and are accelerating our transformation roadmap to simplify our operations to drive sustainable efficiencies. The actions we have taken within our Germany Proservia Managed Services business simplify our Germany business and position it for success.

We remain confident in our Diversification, Digitization, and Innovation, “DDI”, strategy, and are making strong progress across many key pillars of our plan.

Diversification is how we accelerate growth of higher margin business in all our brands.

The Manpower brand is our history and our future, and the diverse clients we serve across verticals has enabled us to pivot to opportunities as economic uncertainty has impacted some sectors to a greater extent than others, and some geographies more than others as well. Last quarter we saw solid demand in automotive, public sector and logistics in several markets, offsetting pressures in other manufacturing verticals across our portfolio. We also continue to strengthen the flexibility of our delivery models, so our teams serve our clients in ways that best work for them. The growing demand for integrated, on-site solutions with our clients is strengthening our relationships while we achieve increased productivity and revenues. Our focus on specialized skills is also beginning to deliver profitability improvements as we continue to boost skills and employability with our Manpower MyPath program, creating talent at scale in response to skills shortages and demographic trends.

Today every company is a tech enabled company. To meet the varied needs of our clients we are diversifying delivery in our Experis IT resourcing and services brand, with off-shore and near-shore solutions including our IT Talent Hub in India that is bolstering enterprise client fulfillment. At the same time, our Experis Academies continue to develop IT talent for growth roles in our key practice areas.

As workforce complexity grows, clients value the breadth of offerings within our Talent Solutions brand. Our Right Management, Recruitment Process Outsourcing and TAPFIN Managed Service provider offerings have all been recognized as global leaders in 2023. Talent acquisition, development and transformation continue to be key priorities for our enterprise clients. As economic uncertainty persists, we have seen good growth in our Right Management business as companies seek to right-size their organizations which has helped offset the reduction in recruitment activities impacting other offerings in the current environment.

Turning to Digitization – we have made great progress in our technology roadmap during 2023, and we are proud to be leading the global industry through the deployment of PowerSuite, our global cloud-based platforms for front and back office, and I am pleased with the work we are doing to align our data using these platforms across our operations globally. By the end of 2023, the majority of our global revenues were using the PowerSuite front office and by the end of 2024, substantially all of our revenues will be running through common technology front office and web platforms. We also continue to make very good progress on our back office platform with significant country implementations in progress including major businesses such as France and the U.S.

Innovation is how we future proof our organization, accelerating the deployment of our AI recruitment tools and leveraging machine learning to enhance recruiter productivity. We continue to make progress with scalable pilots in key markets. Our leading global technology infrastructure positions us very well for deploying AI driven innovations and recruiter productivity tools, at scale and speed.

Each year we provide an update on our sustainability progress, and we are proud of our ongoing commitment to people and the planet. In November, we released our third annual *Working to Change the World* report— citing continued progress in upskilling people for in-demand roles and leading the way in ethical AI governance, developing best-practice guardrails to help us and the clients we serve navigate this new space.

Our recent survey of 38,000 global hiring managers also found 70% of employers are urgently recruiting or planning to recruit green talent, with the highest demand in renewable energy, manufacturing, operations, and IT. We are committed to taking a pragmatic, industry specific approach to green jobs and were pleased to partner with our clients at the World Economic Forum in Davos to highlight the new skills and jobs that will be created as companies seek to compete better and become greener and more sustainable.

SLIDE 23 – Jonas Prising

Our DDI strategy is positioning us for profitable growth and winning in the market, and we are making good progress in a challenging environment. During times of great change, our teams are passionate about bringing people along as we shape the future of work and the future for workers. Our talented colleagues around the world are dedicated to providing practical solutions to upskill people for success, and providing companies with resilient, adaptable talent so they can flex and strengthen their workforces to deliver on their business strategy.

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