

ManpowerGroup

Demand inflection still out of reach

Reiterate Rating: UNDERPERFORM | PO: 65.00 USD | Price: 76.50 USD

Macro weighing heavily on demand

We reiterate our Underperform as MAN's customer demand remains challenged amid soft economic growth in Europe & the US (64% & 16% of 2023 sales). Weak CEO confidence and depressed PMI levels across Europe and the US bode poorly for the near-term. We view the recent turmoil in the Red Sea as an incremental risk (see our [Jan 29 note](#)), but as of now it has only negatively impacted a single MAN customer in Germany.

4Q EPS beats, but 1Q guidance misses the Street

4Q's \$1.45 EPS beat our/Visible Alpha's \$1.18/1.19E. The beat to our view was primarily on higher margins (2.3% vs. our 2.1%E) and interest income (+10cE). Sales also beat modestly ((3.7)% vs. our (5.1)%). MAN guided 1Q24 EPS to \$0.88-0.98, below our/the Street's prior \$1.09/\$1.04 largely due to much lower margins. Guidance reflects a 4-8% c\$ sales decline and 90-110bp of adj. EBIT margin contraction to 1.5-1.7%. We're now at \$0.90 for 1Q and are lowering our 2024/25E EPS by 14/9% to \$4.92/6.51 assuming a more prolonged downturn in Europe. We are raising our PO by \$10 to \$65 as we roll forward our valuation to 2025 (our P/E valuation multiple is unchanged at 10x).

MAN incrementally positive on US, while Europe struggles

4Q's (5)% organic days-adj, sales was softer than 3Q's (4)%. Europe (broadly) continues to weaken, while management pointed to stabilization in the US (and the UK). The US is likely entering a soft landing, but we're still cautious given Fed efforts to loosen the labor market. We don't expense material step-downs from here, but we aren't ready to assume trends have fully stabilized. Meanwhile, demand in France, Italy and Germany is still abating into 1Q.

Permanent staffing may have stabilized, still a headwind

Permanent staffing comprised 15.3% of gross profit dollars, down from 16.5% in 3Q and ~21% at recent peak levels (2Q22). Penetration is currently in line with pre-COVID levels. Softer permanent staffing sales hurt 4Q gross margin by 60bp; but this was better than 3Q's 70bp hit, but worse than 2Q/1Q's 40/10bp of pressure. Management thinks permanent staffing demand has stabilized, although we see risk if the macro worsens further. Moreover, 1H24 faces material pressure as MAN annualizes the weaker trend.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	8.50	6.04	4.92	6.51	7.90
GAAP EPS	7.07	1.77	4.63	6.51	7.90
EPS Change (YoY)	17.2%	-28.9%	-18.5%	32.3%	21.4%
Consensus EPS (Bloomberg)			5.56	7.55	8.26
DPS	2.72	2.94	3.18	2.08	2.53
Valuation (Dec)					
P/E	9.0x	12.7x	15.5x	11.8x	9.7x
GAAP P/E	10.8x	43.2x	16.5x	11.8x	9.7x
Dividend Yield	3.6%	3.8%	4.2%	2.7%	3.3%
EV / EBITDA*	6.6x	7.8x	7.5x	7.5x	6.6x
Free Cash Flow Yield*	8.8%	6.9%	7.1%	7.9%	9.6%

* For full definitions of *IQmethod*SM measures, see page 4.

31 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	55.00	65.00
2024E Rev (m)	18,236.8	18,197.3
2025E Rev (m)	19,138.2	18,745.3
2026E Rev (m)	19,775.6	19,369.9
2024E EPS	5.69	4.92
2025E EPS	7.18	6.51
2026E EPS	8.58	7.90

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Stock Data

Price	76.50 USD
Price Objective	65.00 USD
Date Established	31-Jan-2024
Investment Opinion	B-3-7
52-Week Range	67.35 USD - 92.43 USD
Mkt Val (mn) / Shares Out (mn)	3,932 USD / 51.4
Free Float	98.8%
Average Daily Value (mn)	25.20 USD
BofA Ticker / Exchange	MAN / NYS
Bloomberg / Reuters	MAN US / MAN.N
ROE (2024E)	11.1%
Net Dbt to Eqty (Dec-2023A)	18.9%

ESGMeter™

High

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Timestamp: 31 January 2024 12:30AM EST

iQprofileSM ManpowerGroup

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.0%	5.6%	6.5%	8.5%	9.9%
Return on Equity	18.1%	13.0%	11.1%	14.8%	17.5%
Operating Margin	3.3%	2.4%	2.1%	2.6%	2.9%
Free Cash Flow	348	270	278	313	376

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.1x	1.5x	1.3x	1.2x
Asset Replacement Ratio	0.9x	0.9x	1.0x	0.9x	1.0x
Tax Rate	32.9%	56.9%	32.5%	32.1%	31.8%
Net Debt-to-Equity Ratio	14.1%	18.9%	23.2%	25.2%	21.8%
Interest Cover	26.9x	9.3x	10.7x	15.5x	24.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	19,828	18,915	18,197	18,745	19,370
% Change	-4.3%	-4.6%	-3.8%	3.0%	3.3%
Gross Profit	3,572	3,358	3,231	3,381	3,513
% Change	4.8%	-6.0%	-3.8%	4.6%	3.9%
EBITDA	652	551	568	569	644
% Change	-4.5%	-15.5%	3.2%	0.2%	13.2%
Net Interest & Other Income	(25)	(50)	(36)	(32)	(23)
Net Income (Adjusted)	450	303	240	310	372
% Change	12.1%	-32.5%	-21.0%	29.5%	19.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	374	89	226	310	372
Depreciation & Amortization	85	89	79	81	77
Change in Working Capital	(140)	99	38	(16)	(10)
Deferred Taxation Charge	5	(21)	(22)	(22)	(22)
Other Adjustments, Net	100	93	32	35	38
Capital Expenditure	(76)	(78)	(76)	(76)	(78)
Free Cash Flow	348	270	278	313	376
% Change	-40.1%	-22.3%	2.9%	12.5%	20.4%
Share / Issue Repurchase	(278)	(188)	(180)	(250)	(200)
Cost of Dividends Paid	(140)	(144)	(154)	(99)	(119)
Change in Debt	(59)	(16)	(41)	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	639	581	484	448	505
Trade Receivables	5,137	4,830	4,597	4,735	4,893
Other Current Assets	158	161	167	171	177
Property, Plant & Equipment	112	130	161	190	226
Other Non-Current Assets	3,084	3,128	3,094	3,059	3,024
Total Assets	9,130	8,830	8,502	8,603	8,825
Short-Term Debt	27	12	0	0	0
Other Current Liabilities	4,895	4,788	4,599	4,726	4,879
Long-Term Debt	960	991	976	976	976
Other Non-Current Liabilities	524	483	483	483	483
Total Liabilities	6,672	6,596	6,381	6,508	6,661
Total Equity	2,458	2,234	2,122	2,096	2,164
Total Equity & Liabilities	9,130	8,830	8,502	8,603	8,825

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Business Services

Company Description

ManpowerGroup is the third largest staffing firm in the world, after Adecco and Randstad. It serves over 400,000 clients from 2,200 offices in 75 countries globally, recruiting millions of people worldwide each year. Its largest markets are France (24% of total revenue), US (18%) and Italy (9%). ManpowerGroup provides temporary staffing, permanent placement, and outplacement services. Its largest segments in staffing are industrial and clerical staffing.

Investment Rationale

We are concerned that disruption from the Russia/Ukraine conflict will weigh on its post-COVID recovery and valuation. Its lower-skill staffing business has high exposure to Europe (64% of 2022 sales) and the manufacturing sector. Furthermore, a strengthening US dollar is also a concern for our 2024E forecast.

Stock Data

Average Daily Volume 329,406

Quarterly Earnings Estimates

	2023	2024
Q1	1.61A	0.80E
Q2	1.58A	1.00E
Q3	1.39A	1.20E
Q4	1.45A	1.63E

Price objective basis & risk

ManpowerGroup (MAN)

We base our \$65 price objective on 10x 2025E P/EPS, which is below MAN's typical mid-cycle FY2 P/E multiple range (10-15x) given recession risk.

Upside risks to our price objective are: 1) faster global and especially European economic recovery, 2) aggressive share repurchases or acquisitions, 3) further cost rationalization efforts.

Downside risks to our price objective are: 1) COVID-19 impacts on economic activity linger longer than expected, 2) the European economic recovery fails to meet expectations, 3) competitive pressures amid sluggish growth, and 4) strengthening in the US dollar.

Analyst Certification

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US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alight Inc	ALIT	ALIT US	Heather Balsky
	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Dun & Bradstreet Holdings, Inc.	DNB	DNB US	Heather Balsky
	Equifax	EFX	EFX US	Heather Balsky
	Gartner	IT	IT US	Heather Balsky
	Moody's Corp.	MCO	MCO US	Heather Balsky
	S&P Global	SPGI	SPGI US	Heather Balsky
	Strategic Education	STRA	STRA US	Heather Balsky
	Thomson Reuters	YTRI	TRI CN	Heather Balsky
	Thomson Reuters	TRI	TRI US	Heather Balsky
NEUTRAL				
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
UNDERPERFORM				
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	Clarivate PLC	CLVT	CLVT US	Heather Balsky
	ManpowerGroup	MAN	MAN US	Heather Balsky
	MSCI Inc	MSCI	MSCI US	Heather Balsky
	Robert Half	RHI	RHI US	Heather Balsky
	TransUnion	TRU	TRU US	Heather Balsky



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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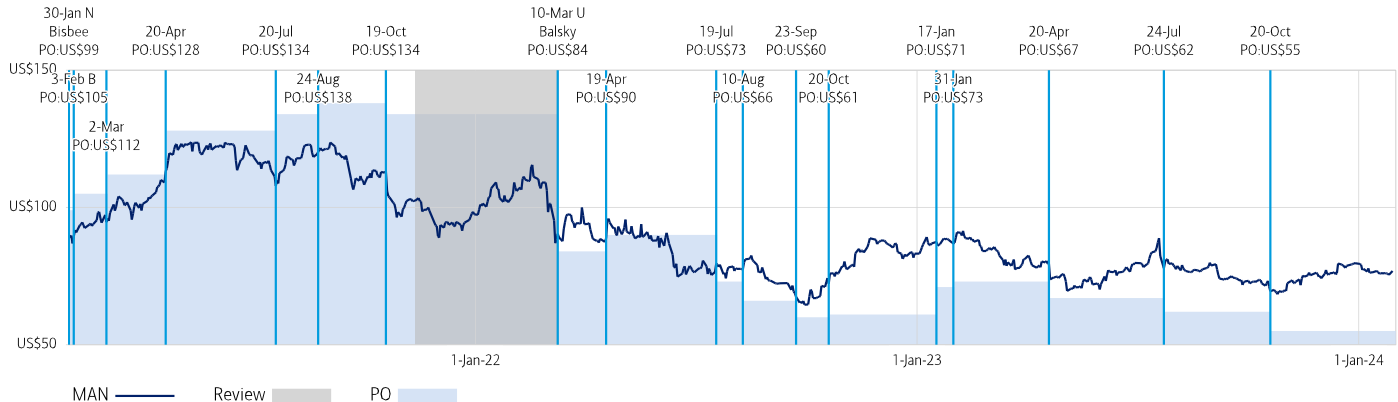
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ManpowerGroup (MAN) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Business Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	26	55.32%	Buy	17	65.38%
Hold	8	17.02%	Hold	3	37.50%
Sell	13	27.66%	Sell	11	84.62%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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