Manpower Group (MAN)

Updated February 2nd, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$87	**5 Year CAGR Estimate:**	7.9%	**Market Cap:**	$4.46 B
Fair Value Price:	$88	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	05/31/2023
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.4%	**Dividend Payment Date:**	06/15/2023
Dividend Yield:	3.1%	**5 Year Price Target**	$113	**Years Of Dividend Growth:**	12
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

ManpowerGroup Inc. is a leading global workforce solution company with a well-established network of 2,500 offices in 75 countries and territories. Manpower owns hundreds of subsidiary companies globally and serves large and small organizations through the following brands: Manpower, Experis, and Talent Solutions. The company is one of the three leading diversified global recruitment providers alongside Adecco and Randstad, with each player possessing about 5%-6% of the market share. The major geographic markets for Manpower include the United States (13% of 2021 revenues); Southern Europe (45%); Northern Europe (23%); Asia Pacific/Middle East (12%); other parts of the Americas (7%).

On January 31st, 2023, the company announced Q4 2022 results, reporting revenue of $4.81 billion for the quarter, down by 10.6% compared to $5.3 billion in Q4 2021. Moreover, the company's gross margins increased by ~100 bps from 17.2% in Q4 2021 to 18.2% in Q4 2022. The adjusted diluted earnings during the quarter stood at $2.08 per share.

The adjusted EBITA margin of 3.5% came slightly below the company's guidance of 3.6% to 3.8%. The economic headwinds and increasing cautiousness on the part of businesses due to the uncertain economic forecast have resulted in a softening of hiring practices. Employers in some industries are exercising greater prudence in their demand for contingent and permanent recruitment of people, as seen by longer recruiting and sales cycles and a sluggish order flow. However, the management noted that, overall, the labor markets remain robust, and the company continues to see a healthy order flow and ample opportunity across a variety of regions and brands. Based on fourth-quarter patterns, the management iterated that it continues to have a cautious outlook for the first quarter and predicts that the challenging environment will persist. The company anticipates first-quarter underlying EPS in the range of $1.61 to $1.71.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$4.44	$5.30	$5.40	$6.27	$6.95	$8.56	$7.72	$0.41	$6.91	$7.08	***$6.78***	***$8.66***
DPS	$0.92	$0.98	$1.60	$1.72	$1.86	$2.02	$2.18	$2.26	$2.52	$2.72	***$2.72***	***$2.80***
Shares	79.4	78.1	73.0	67.0	66.1	60.8	58.7	55.6	53.6	52.2	***51.5***	***41.0***

ManpowerGroup has steadily grown its business over the last decade and achieved EPS growth at a CAGR of 5.3% during the past nine years. In addition, the company has consistently reduced its outstanding share capital through share buybacks increasing shareholder returns. Manpower is expected to post an EPS between $6.80-$7.48, reflecting the robust business dynamics despite broader economic softening and lower demand for some of the company's services. Moreover, ManpowerGroup's digitization, innovation, and acceleration plans, along with sustained investments in technology, are enhancing the company's ability to pursue higher margin opportunities and generate long-term, sustainable value. We maintain our forecast of 5.0% growth in EPS over the next five years which will lead to our estimated EPS of $8.66 by 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	14.6	14.3	15.8	12.2	15.9	11.0	11.5	181.4	15.4	11.8	***12.8***	***13.0***
Avg. Yld.	1.4%	1.3%	1.9%	2.2%	1.7%	2.1%	2.5%	3.0%	2.4%	3.2%	***3.1%***	***2.5%***

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Manpower has been currently trading at a forward P/E of 12.8, slightly lower than its normalized long-term 9-year average P/E of 13.6 and normalized five-year average P/E of 13.1. The stock has outperformed the S&P 500 over the past six months, delivering a 15.7% return, and the company continued to close in on its historical P/E multiple. We believe that the company's strategic positioning is good and will continue to thrive in the near future. However, the company is now trading at its long-term historical multiple and has a lower chance of higher multiple re-rating. There is a significant upside from the current price once recession concerns ease and the market re-assigns a fairer P/E to the stock. We have estimated the stock will trade at a P/E ratio of 13.0 by 2028, which will result in a fair value price of $88 by the end of 2028, slightly ahead of the current market price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

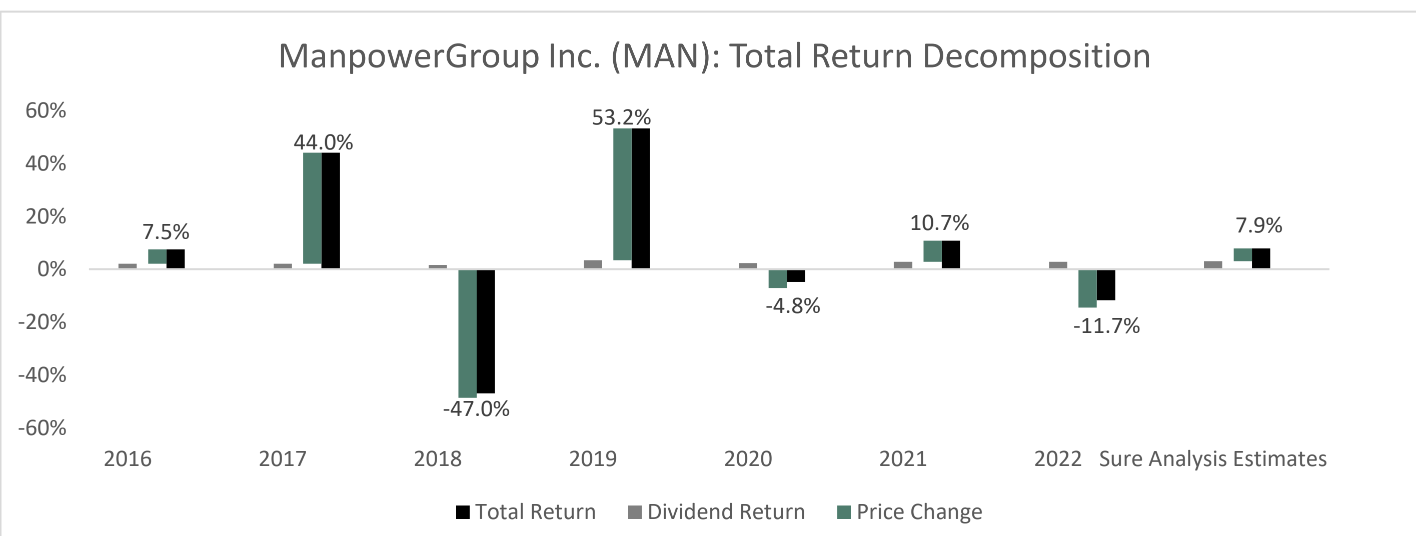
Year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2028**
Payout	21%	18%	30%	27%	27%	24%	28%	551%	36%	*38%*	***40%***	***32%***

Manpower has provided consistent shareholder returns and paid dividends with a 10-year normalized payout ratio averaging 26%. We expect the company to maintain its healthy payout ratio in the future and have assumed a payout ratio of 32% going forward. Additionally, the company made share repurchases of $270 million in 2022. During the fourth quarter, the company repurchased 376,000 shares of stock for $25 million. Even though the staffing industry is highly competitive and cyclical in nature, Manpower has an established centralized database to match employers with best-suited candidates, but we expect the company to continue to face fierce competition from other global staffers like Randstad, Adecco, and Randstad, which will inhibit the company's ability to gain market share.

Final Thoughts & Recommendation

We expect the labor market to remain tight in the coming years. Before the COVID-19 pandemic, the U.S. labor market was tight as the headline unemployment rate fell to 3.6%. This level skyrocketed during the first half of 2020, but it has now come back to a below pre-pandemic rate of 3.5% as of December 2022. We expect it will stay near this level in the near term. In addition, the trend of hybrid working models and the shift toward recruitment outsourcing by employers is expected to continue, which will benefit the company. However, the company has continued to rally since our last report and we see limited upside from current levels going forward. We revise our buy rating to hold premised upon the 7.9% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 5.0% and the3.1% dividend yield.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	20678	20251	20763	19330	19654	21034	21991	20864	18001	20724
Gross Profit	3442	3367	3488	3296	3334	3485	3579	3375	2825	3408
Gross Margin	3030	2855	2768	2607	2588	2695	2782	2666	2570	2822
SG&A Exp.	101	94	84	78	85	84	86	77	76	73
D&A Exp.	412	512	720	689	746	789	797	709	254	585
Operating Profit	198	288	428	419	444	545	557	466	24	382
Op. Margin	260	352	255	459	543	346	418	762	886	581
Net Profit	171	188	254	242	258	192	198	220	124	186
Net Margin	20678	20251	20763	19330	19654	21034	21991	20864	18001	20724
Free Cash Flow	3442	3367	3488	3296	3334	3485	3579	3375	2825	3408
Income Tax	3030	2855	2768	2607	2588	2695	2782	2666	2570	2822

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	7013	7288	7181	7518	7574	8884	8520	9224	9328	9829
Cash & Equivalents	648	738	699	731	599	689	592	1026	1567	848
Acc. Receivable	4179	4278	4135	4243	4413	5371	5276	5273	4912	5448
Goodwill & Int.	1372	1400	1362	1584	1534	1627	1543	1529	1474	2306
Total Liabilities	4512	4374	4238	4825	5128	6026	5821	6462	6875	7297
Accounts Payable	1467	1524	1543	1659	1914	2279	2267	2475	2527	3039
Long-Term Debt	770	518	468	855	825	948	1075	1073	1124	1118
Total Equity	2501	2914	2943	2625	2362	2775	2625	2743	2441	2522
LTD/E Ratio	0.31	0.18	0.16	0.33	0.35	0.34	0.41	0.39	0.46	0.44

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.03	0.04	0.06	0.06	0.06	0.07	0.06	0.05	0.00	0.04
Return on Equity	0.08	0.11	0.15	0.15	0.18	0.21	0.21	0.17	0.01	0.15
ROIC	0.06	0.09	0.12	0.12	0.13	0.15	0.15	0.12	0.01	0.11
Shares Out.	80.1	79.6	80.7	77.7	70.8	67.9	65.1	60.3	58.3	55.4
Revenue/Share	258.15	254.40	257.28	248.78	277.60	309.78	337.81	346.00	308.77	374.09
FCF/Share	3.24	4.42	3.16	5.91	7.67	5.10	6.43	12.63	15.19	10.48

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.