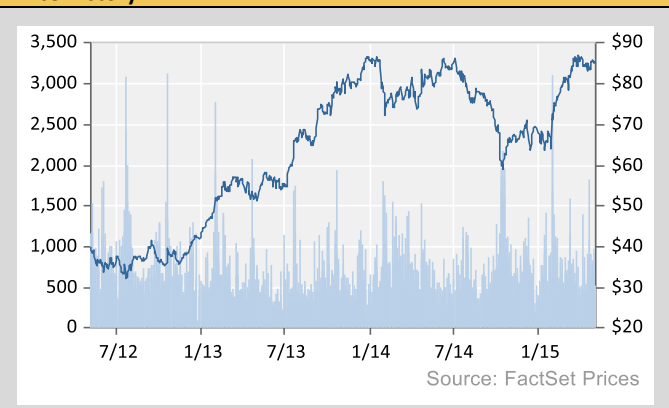


**Recommendation: Hold**

Current Price	\$96.51	---	Ticker	MAN
1 Year Bear	\$90	-20%	Sh. Out. (M)	60
1 Year Base	\$93	-6.7%	M.Cap. (\$B)	5.6
1 Year Bull	\$99	27%	EV (\$M)	6.1

**Price History**

	5Y	3Y	2Y	LTM	YTD	3M	1M
Return	8.06%	2.14%	-12%	42.9%	48.7%	12.3%	3.31%

**Financials**

	2015	2016	2017	2018	2019	2020F	2021F
Sales(\$B)	20.7	19.3	19.6	21.0	21.9	21.2	21.2
Gr. %	4.2%	-6.7%	0.2%	7.1%	4.2%	0.6%	0.3%
v. Cons.	-	-	-	-	-	20.9	20.7
Ind.	5.1%	-7.1%	0.7%	3.1%	2.1%	0.0%	1.7%
EPS	\$5.46	\$6.33	\$8.13	\$8.62	\$8.14	\$7.90	\$8.37
Gr. %	7.0%	15%	28%	6.0%	-5.5%	-2.9%	5.9%
v. Cons.	-	-	-	-	-	7.71	8.28
Ind.	6.3%	9.1%	19.2%	1.3%	-7.1%	1.0%	0.5%

**Ratios**

	2015	2016	2017	2018	2019	2020F	2021F
NPM	2.2%	2.3%	2.6%	2.5%	2.5%	2.6%	2.6%
Ind.	2.1%	2.1%	2.1%	2.3%	2.3%	-	-
ROE	18.1%	17.8%	21.2%	20.6%	19.6%	19.5%	19.6%
Ind.	17.8%	17.9%	20.1%	20.0%	19.8%	-	-
ROA	5.1%	5.9%	6.6%	6.4%	6.1%	6.2%	6.4%
Ind.	5.5%	5.7%	6.1%	6.3%	6.3%	-	-
A T/O	2.71	2.60	2.56	2.53	2.45	2.43	2.42
A/E	3.10	3.03	3.20	3.22	3.21	3.14	3.07

**Valuation**

	2015	2016	2017	2018	2019	2020F	2021F
PE	15.6	14.2	17.6	7.2	13.0	12.5	11.6
Ind.	14.6	13.6	17.6	8.3	12.7	12.7	13.0
P/S	0.3	0.3	0.4	0.2	0.3	-	-
P/B	2.1	2.6	3.1	1.6	2.0	-	-
P/CF	14.3	11.3	24.7	10.1	9.7	-	-
EV/EBITDA	9.1	8.4	10.4	5.5	8.6	-	-
D/P	1.9	1.9	1.5	30.	2.3	-	-

Email: croswhi2@uwm.edu

Phone: 262-237-4474

Industrials, Human Resources &amp; Employment Services

**Manpower Group Inc.****Summary**

I recommend a neutral rating with a target of \$96. Manpower appears to be poised to experience steady growth but much of this is already priced in. The company should face expanding business in key geographic segments but also faces significant macroeconomic risks. I believe the stock is fairly valued based on relative and discounted cash flow analysis.

**Key Drivers**

- European labor market: much of Manpower's business comes from Europe and it has significant exposure to their labor market. Signs of strength could list growth for the firm.
- Secular trends in the workforce: over the past few decades employer have favored increasingly flexible labor. This has worked in Manpower's advantage and is expected to continue.
- Policy uncertainty: Firms are unlikely to invest when they are facing uncertain future environments. We are in an era of economic and political uncertainty and this can be a cause for concern for Manpower.
- Global economic growth: Manpower has significant exposure to the global market. Late cycle dynamics, trade wars, and US politics all affect the labor market and will drive MAN's performance.

**Valuation**

Using a relative valuation approach, Manpower appears to be fairly valued in comparison to the staffing industry. DCF analysis implies that the stock is worth \$94.50. A combination of the approaches suggests that Manpower is fairly valued, as the stock's value is about \$93 and the shares trade at \$96.51.

**Risks**

- Continued uncertainty in global trade can contribute to slow economic growth
- Political leaders have signaled a willingness of governments to get involved in the sector to incentivize a substitute

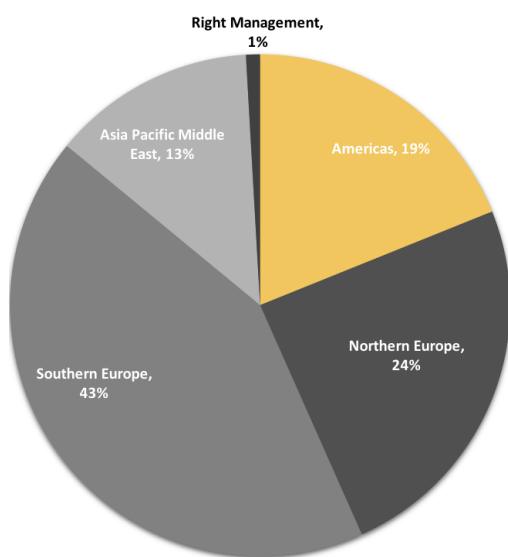
## Company Overview

Manpower Group Inc. (MAN) is a provider of workplace and staffing solutions. The company offers recruitment services for permanent, temporary, and contract employment for professional, administrative, and industrial positions. MAN has been able to capitalize on recent trends in the labor market towards increased workforce flexibility. The firm has significant exposure to global economic conditions, especially in its primary markets. MAN has nearly 3000 offices in over 80 countries. The firm organizes its segments into Americas, Southern Europe, Northern Europe, Asia Pacific Middle East, and Right Management. Roughly two-thirds of MAN’s business comes from Europe. The largest share of MAN’s revenue is generated in France which accounted for 27% of the firm’s revenue in 2018.

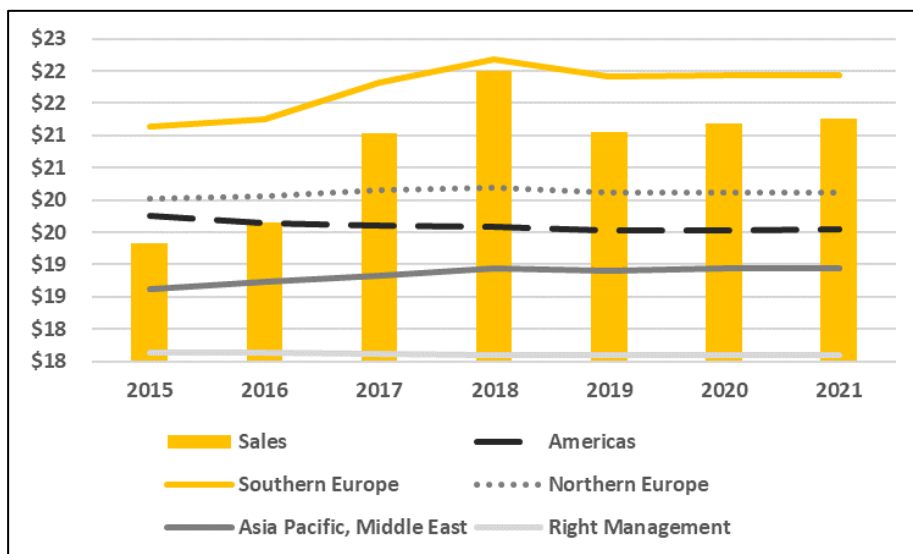
Manpower’s portfolio of brands includes ManpowerGroup, Experis, Manpower, and Right Management:

- 1) ManpowerGroup: Strategic workforce consulting including recruitment process outsourcing and managed services programs.
- 2) Experis: Professional resource solutions for; information technology, finance, and engineering positions.
- 3) Manpower: Staffing services for contingent, permanent placement, and contract-to-permanent administrative and industrial positions.
- 4) Right Management: Outplacement services, leadership development, and career management solutions.

Figures 1 & 2: Revenue (in percent) by segment in 2018 (left) and revenue history (in billions) since 2015 (right)



Source: Company reports



Source: Company reports

## Business/Industry Drivers

Though several factors may contribute to Manpower’s future success, the following are the most important business drivers:

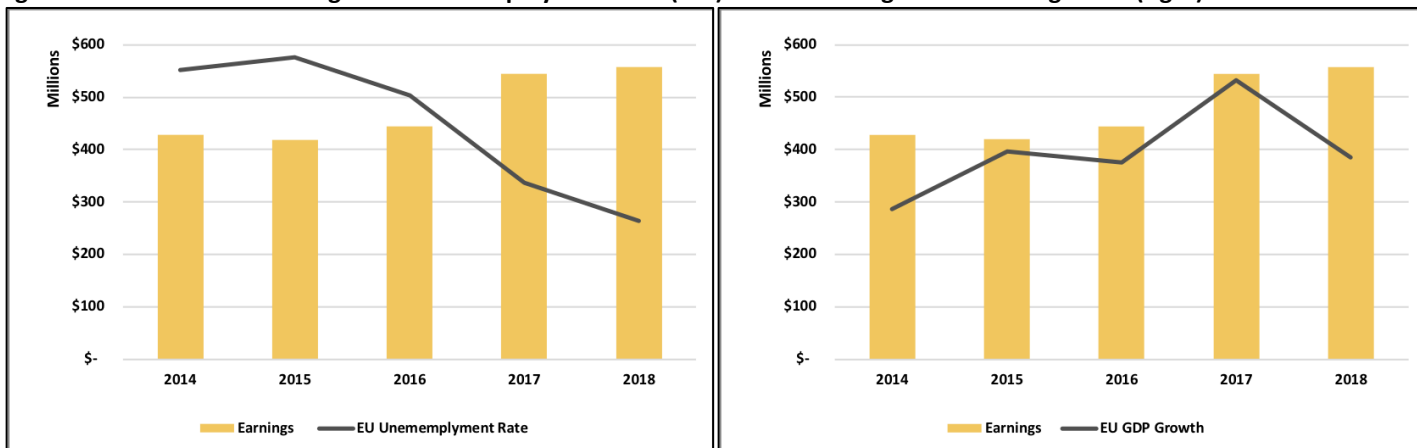
- 1) Labor market conditions in Europe
- 2) Secular trends in the workforce
- 3) Public policy uncertainty
- 4) Competitive Position

MAN’s earnings have a negative correlation coefficient of -0.99 to the unemployment rate in Europe since 2014

Slow growth, negative interest rates, and extreme policy uncertainty has led investors to be wary of exposure to the European economy. In Manpower’s case, their exposure is more related to the labor market specifically and less to broad economic conditions. Since 2014, the correlation coefficient of Manpower’s earnings and the unemployment rate in Europe is -0.991, implying an incredibly strong correlation between the two. The positive correlation of MAN’s earnings to growth in gross domestic product in Europe does exist, at 0.60 it is less significant than the correlation of earnings to unemployment.

The strength of the labor market is, of course, especially critical in key markets like Europe which makes up nearly two-thirds of its revenue. The unemployment levels peaked in 2015 at just over 12%, followed by a steady decline coming down to a current level of 7.5%. In France, which makes up 27% of Manpower’s revenue, the unemployment trends have mirrored those of Europe as a whole. France experienced a peak of unemployment slightly later than Europe, reaching 10.6% in 2015. In line with the rest of Europe, France has since experienced a trend of reductions in the unemployment rate settling at post-recession low of 8.5%.

Figures 3 and 4: MAN’s earnings and EU unemployment rate (left) MAN’s earnings and EU GDP growth (right)



Source: Company reports, OECD

Europe has relatively stable labor force participation rates. Over the past ten years the European Union countries experienced a low of 57.2% and high of 57.6%. The stability in the labor force participation rate demonstrates that the decreases in unemployment rates across Europe are due to new hires.

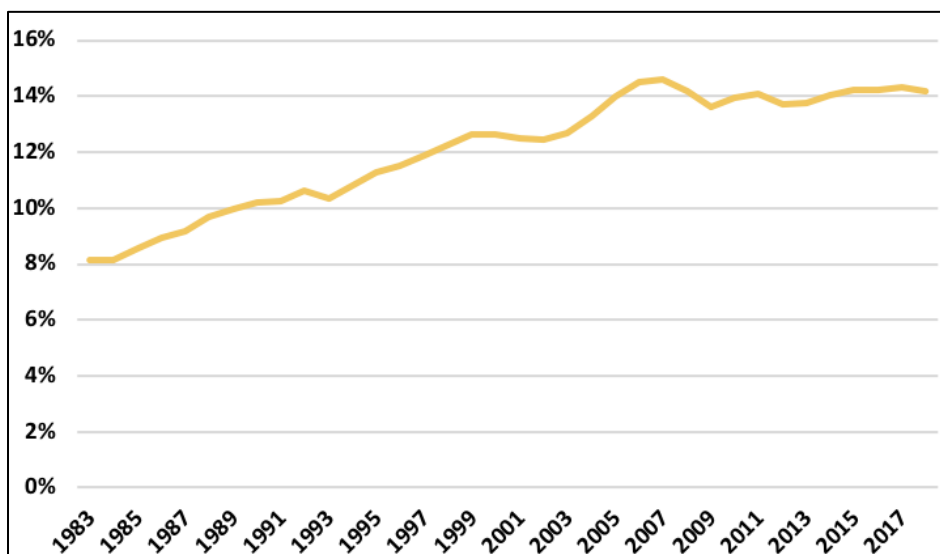
Secular Trends in the Workforce

Shifting trends in the workforce play a significant role in Manpower’s business. The composition of the population, institutional set-up, macroeconomic trends, and cultural backgrounds all impact the workforce in unique ways. With roughly 90% of Manpower’s business coming from their temporary staffing services, they are particularly exposed to certain segments of the labor market.

Since the mid-1980s, there has been an increasing emphasis on workforce flexibility. By utilizing temporary employees, firms are able to lower fixed costs and optimize their workforce for their immediate needs. In the European Union, the proportion of temporary employees in the workforce has increased by 74% since the mid-1980s. This trend offers continued opportunity for MAN.

**Figure 5: Proportion of Temporary Workers in the Workforce in the European Union**

The proportion of temporary works in the European Union has increased by 74% since 1983



Source: OECD

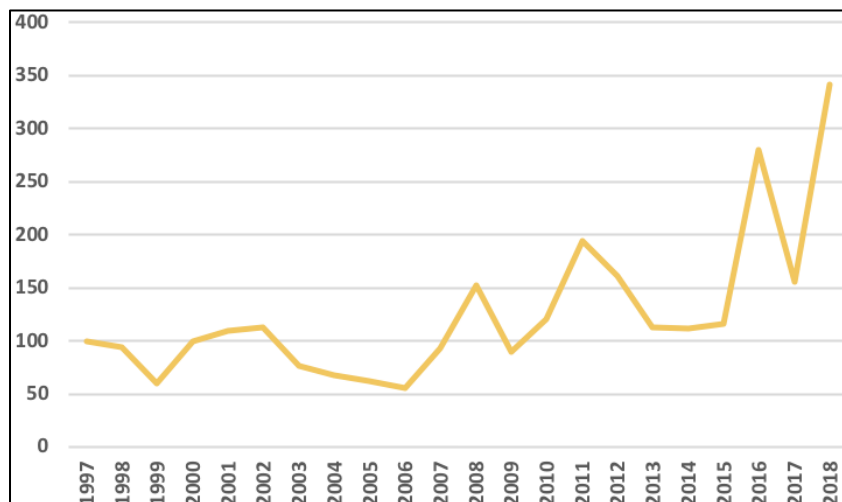
Public Policy Uncertainty

Uncertainty surrounding public policy has engulfed Europe in recent years. From Brexit to minor regulatory changes, businesses in Europe are bracing for drastic shocks to their economy. Manpower is no exception to this. MAN is particularly exposed to changes in employment policy, especially in regard to taxation and subsidies of labor. In 2018, MAN saw a reduction in gross profit margin largely due to the reduction in a prominent payroll tax credit in France. Changes in public policy will continue to have significant effects on the firm’s earnings.

Of course, significant policy changes like Brexit will have substantial effects on the macroeconomic climate in Europe and the world at large. The extent of these effects are not yet fully known and are far from being totally quantified. This has created extreme uncertainty in public policy around the world. The Global Economic Policy Uncertainty Index has seen historic highs in recent years. The index is currently over 200% higher than in 2009.

The Global Economic Uncertainty Index has increased substantially in

Figure 6: Global Economic Uncertainty Index

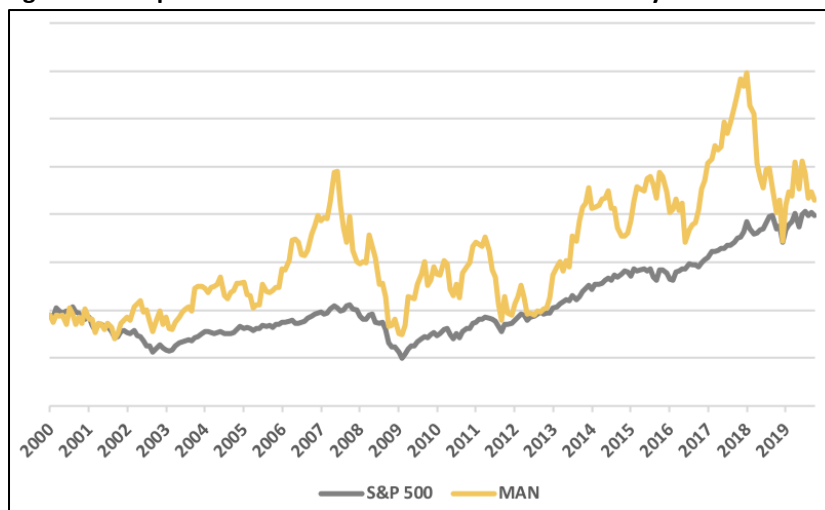


Source: Economic Policy Uncertainty

While the downsides of policy uncertainty are more readily apparent than the positives, I believe that this uncertainty provides Manpower with a unique opportunity, especially in Europe. While firms are uncertain about the near-term future economic conditions, they will prefer to build flexible business expansions rather than those with higher fixed costs. One method of attempting to grow while still positioning your business to be agile in turbulent times is to utilize temporary workers rather than full time employment.

Manpower experienced more volatility and has outperformed the S&P 500 since 2000

Figure 7: Manpower and S&P 500 Indexed at 100 in January 2000



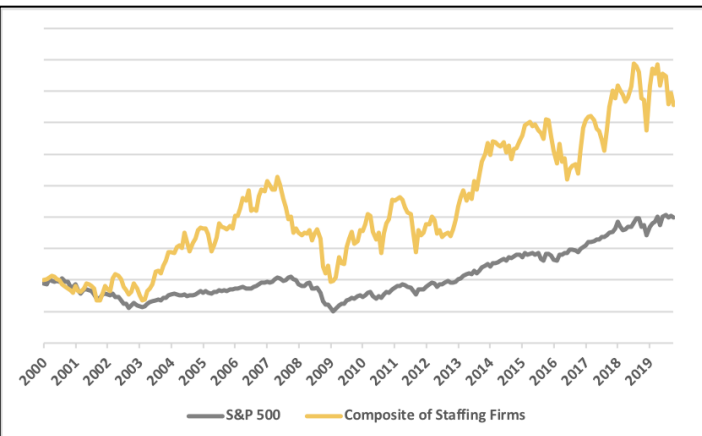
Source: Factset

Competitive Position

Manpower operates in a hypercompetitive industry with relatively low barriers to entry. Man makes up 31% of the market cap and 55% of sales versus its peers. Investors are less bullish on MAN versus its peers. The sector faces significant exposure to the broad economic climate. Manpower has made efforts to hedge this risk with their Right Management segment. Right Management offers outplacement services

that is negatively correlated with economic growth. This provides MAN with the ability to better weather turbulent economic climates than their competitors. In the event of an economic slowdown, look for Manpower to outperform its competitors due to these operations.

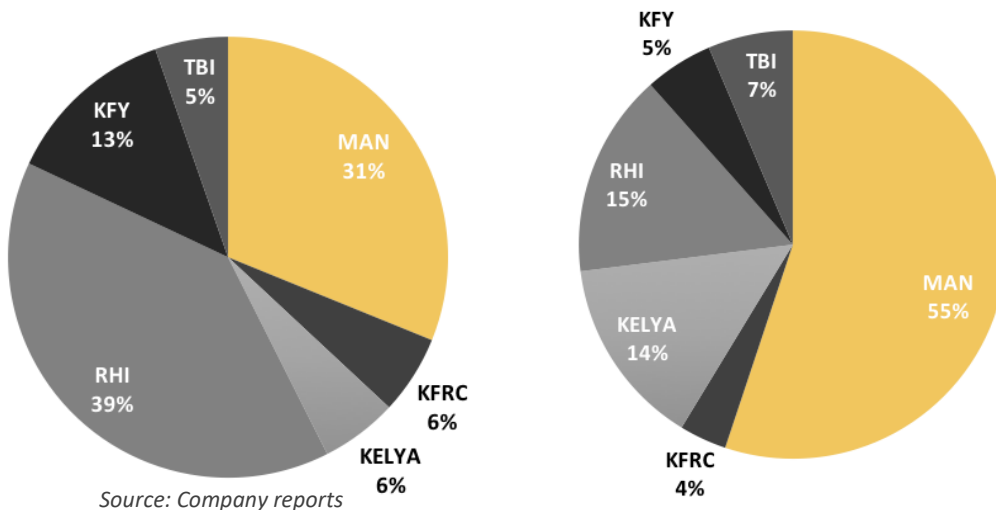
**Figures 8 & 9: Manpower and Composite of Staffing Firms (Left) and Staffing Firms and S&P 500 (Right)**



Source: Factset

Source: Factset

**Figures 10 & 11: Staffing Firms Market Share (Left) and Staffing Firms by Sales (Right)**



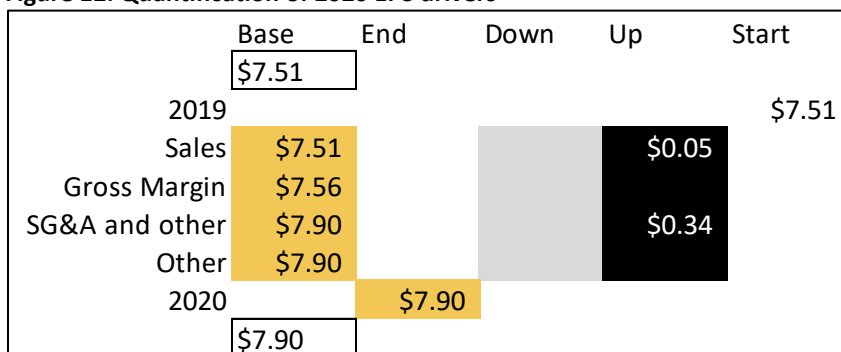
Source: Company reports

## Financial Analysis

I expect EPS to rise to \$7.90 in FY 2020

I expect EPS to rise from \$7.51 in FY 2019 to \$7.90 in FY 2020. Modest gains in revenue from key geographic segments should contribute an increase of \$0.05 in earnings per share. The firm’s fixed costs should remain constant leading to modest improvements to SG&A expense contributing to \$0.34 of the increase in EPS.

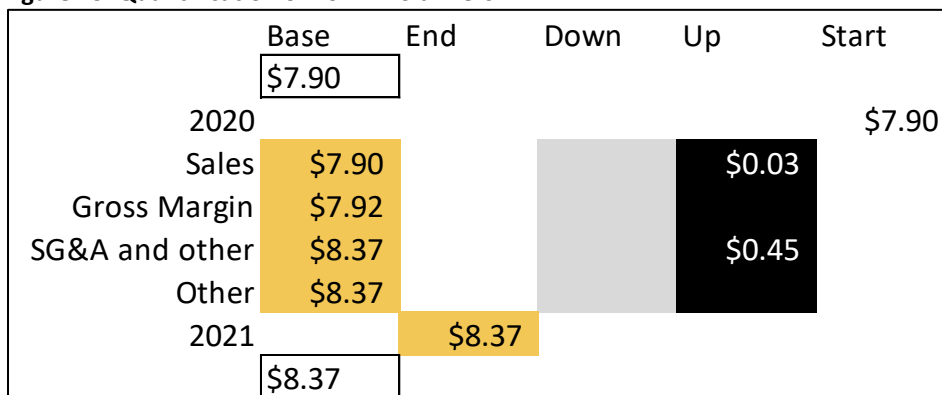
**Figure 12: Quantification of 2020 EPS drivers**



Source: Company Reports, IMCP

In fiscal year 2021, I forecast EPS to continue to grow to \$8.37. Continued modest sales growth should contribute \$0.03 growth in EPS. Gross margin should remain stable again in 2021. Relative to sales, SG&A should decrease to 12.2% leading to \$0.45 increase in EPS.

**Figure 13: Quantification of 2021 EPS drivers**



Source: Company Reports, IMCP

I am more optimistic than the consensus estimates, especially in 2020. I anticipate stronger sales growth in 2020 resulting in a larger year over year growth in earnings per share. The consensus estimate shows a strong recovery in sales in 2021 bringing sales closer inline to my estimate of modest growth over 2020 and 2021.

Figure 14: EPS and YoY growth estimates by quarter

	2020E		2021E	
Revenue	\$	21,189	\$	21,254
YoY Growth		0.61%		0.31%
Revenue Consensus	\$	20,644	\$	21,168
YoY Growth		-1.05%		2.54%
EPS	\$	7.90	\$	8.37
YoY Growth		5.20%		6.00%
EPS Consensus	\$	7.64	\$	8.27
YoY Growth		2.55%		8.25%

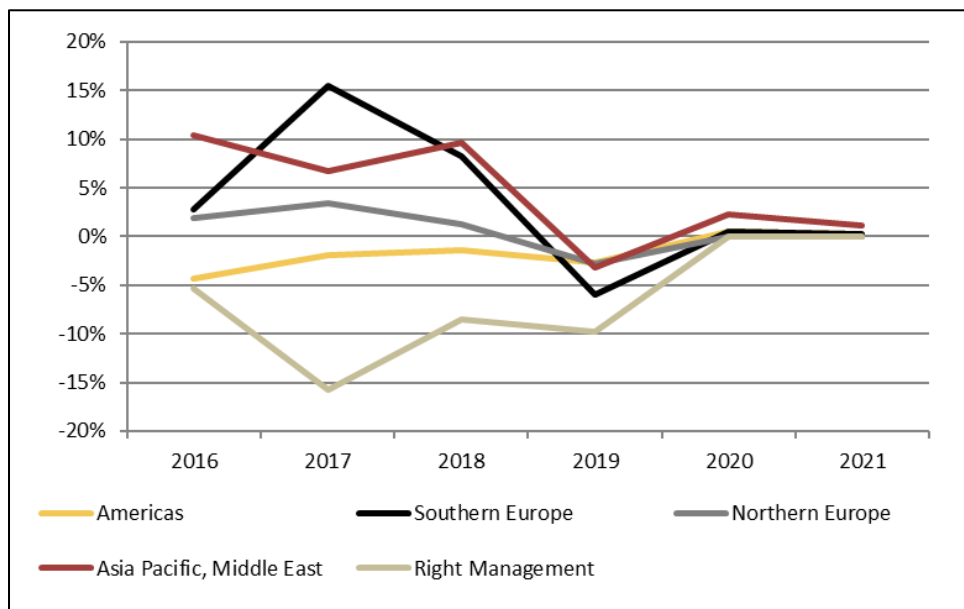
Source: Factset, IMCP

Revenues

Revenues should grow steadily in the coming years

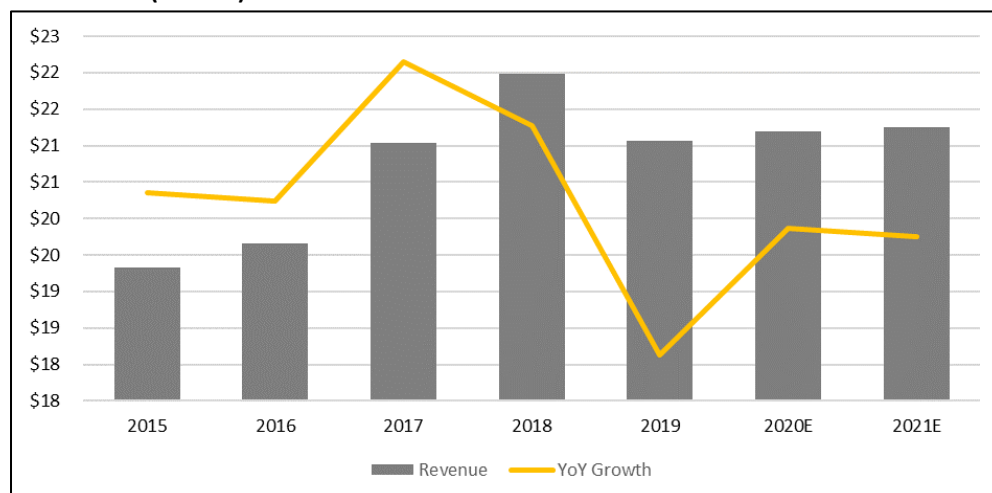
Manpower’s revenues are largely tied to the macroeconomic conditions in the geographic segments that the firm operates. As economic uncertainty has persisted in Europe, the firm’s revenues have fluctuated as employers have been hesitant to invest in a larger workforce. I expect the level of uncertainty to diminish and for the demand for labor to increase in the coming years. This should result in sales growth in Europe, which makes up the majority of MAN’s revenue. Another area that has faced significant uncertainty is in their Asian markets. Trade disputes have led to slowed growth, or declines in sales in Manpower’s Asia Pacific & Middle East segment. Trade negotiations appear to have hit an inflection point that should reverse this trend. For these reasons, I forecast sales growth to continue into the 2020 and 2021 fiscal years.

Figure 15: Manpower segment revenues



Source: Company Reports, IMCP



**16: Revenue (Billions)**

Source: Company Reports

### Return on Equity

Manpower has experienced steady return on equity in recent years. Return on assets have been consistent near 6.0%. A slight drop in margins and asset turnover were offset by lower taxes. In 2020-2021, I expect slightly higher margins but this offset by lower leverage, so ROE reduces to 17.3% in 2020 and 16.2% in 2021.

**Figures 17: 5 Stage Dupont Analysis**

5-Stage Dupont	2016	2018	2018	2019	2020E	2021E
EBIT / sales	3.8%	3.9%	3.8%	3.5%	3.7%	3.9%
Sales / avg assets	2.60	2.56	2.53	2.44	2.37	2.27
EBT / EBIT	93.5%	89.6%	90.3%	95.6%	95.8%	96.0%
Net income / EBT	63.2%	73.9%	73.8%	67.9%	67.9%	67.9%
ROA	5.9%	6.6%	6.4%	5.6%	5.7%	5.8%
Avg assets / avg equity	3.03	3.20	3.22	3.21	3.03	2.80
ROE	17.8%	21.2%	20.6%	18.0%	17.3%	16.2%

### Return on Invested Capital

ROIC has followed the same general trend as ROE. NOPAT margins are up since 2016, but sales to investment capital, like sales to average assets, has been declining.

**Figures 18: Manpower's Return on Invested Capital**

ROIC	2016	2017	2018	2019	2020E	2021E
NOPAT to sales	2.4%	2.9%	2.8%	2.4%	2.5%	2.6%
Sales to NWC	22.00	27.19	23.14	16.09	15.21	15.19
Sales to NFA	8.08	8.16	8.40	8.11	7.91	7.90
Sales to IC ex cash	5.91	6.28	6.16	5.39	5.20	5.20
Total ROIC ex cash	14.3%	18.2%	17.3%	13.0%	13.1%	13.8%

Cash Flow**Figure 19: Free cash flows 2015-2021E**

<b>Free Cash Flow</b>							
	2015	2016	2017	2018	2019	2020	2021
NOPAT	\$449	\$475	\$609	\$617	\$507	\$533	\$563
<i>Growth</i>		5.7%	28.1%	1.3%	-17.7%	5.0%	5.7%
NWC*	911	876	672	1,229	1,389	1,397	1,402
Net fixed assets	2,425	2,441	2,712	2,523	2,671	2,687	2,696
Total net operating capital*	\$3,336	\$3,317	\$3,384	\$3,752	\$4,060	\$4,085	\$4,097
<i>Growth</i>		-0.6%	2.0%	10.9%	8.2%	0.6%	0.3%
- Change in NWC*		(35)	(204)	558	160	8	4
- Change in NFA		16	271	(190)	148	16	8
FCFF*		\$494	\$541	\$249	\$199	\$508	\$550
<i>Growth</i>			9.6%	-54.0%	-19.9%	154.6%	8.4%
- After-tax interest expense	30	31	64	60	22	22	22
FCFE**		\$463	\$478	\$189	\$177	\$485	\$528
<i>Growth</i>			3.2%	-60.4%	-6.4%	174.2%	8.8%
+ Net new debt/other cap		(30)	122	128	41	-	-
Sources of cash		\$433	\$600	\$317	\$218	\$485	\$528
Uses of cash							
Other expense		-	-	-	-	-	-
Increase cash and mkt sec		(132)	91	(97)	78	355	398
Dividends		118	124	127	130	130	130
Change in other equity		588	8	580	220	(0)	0
		\$575	\$223	\$610	\$428	\$485	\$528
Change in other liab		141	(377)	293	210	-	-
Total		\$434	\$600	\$317	\$218	\$485	\$528

While NOPAT has been rising over time, FCFF has been reasonably volatile. In 2017, the firm invested only \$67 million in capital, but in 2018 this grew to \$368 million as the firm invested more into operations in the firm's Asia Pacific and Middle East divisions. FCFE follows similar trends and has been used to repurchase shares (over \$500mil in 2018) and pay a rising dividend. In 2020-2021 I expect FCFE to continue to be used for dividends.

## Valuation

Manpower was valued using multiples and a 3-stage discounting cash flow model. Based on NTM P/E analysis and expected 2021 EPS, the stock is worth \$92.61. Relative multiples versus peers indicate the stock is moderately inexpensive. A discounted cash flow analysis values the stock at \$94.50. As a result of these valuations, I value the stock at \$93.

### Trading History

MAN's TTM P/E has fallen to 7.6 in 2018 from 15.7 in 2017. Relative to the S&P 500 the ratio moved from roughly 0.9 to 0.4. The TTM P/E ratio has since recovered to near 0.6. The company's 5-year P/E ratio is currently 13.2. As international trade tensions settle, positively impacting key geographic regions for MAN, I expect the firm's P/E ratio to return to its five year average.

**Figure 20: MAN NTM P/E relative to S&P 500**



Source: FactSet

Assuming the firm maintains a 13.2 NTM P/E at the end of 2020, it should trade at \$109.11 by the end of the year:

- Price = P/E x EPS = 13.2 x \$7.90 = \$104.28

Discounting \$109.11 back to today at a 12.6% cost of equity (explained in Discounted Cash Flow section) yields a price of \$92.61. Given MAN's potential for earnings growth and continued profitability, this appears to be valued fairly.

### Relative Valuation

Manpower trades at a NTM P/E multiple very close to its peer group. The average NTM P/E ratio of its comparable group is 12.7 and MAN's NTM P/E is currently 12.5. As these companies are driven by similar macroeconomic drivers, a tight P/E range is expected. The range of P/S and P/B for its peer group is wide, with MAN near the average of the peer group in both measures.

Figure 21: MAN comparable companies

Ticker	Current Price	Market Value	Price Change						Earnings Growth						LT Debt/Equity		S&P Rating		LTM Dividend		
			1 day	1 Mo	3 Mo	6 Mo	52 Wk	YTD	LTG	NTM	2017	2018	2019	2020	Pst 5yr	Beta	Equity	Rating	Yield	Payout	
MAN	\$93.35	\$5,504	(1.0)	(3.8)	0.6	1.6	25.6	(3.9)	1.5	-5.0%	11.4%	33.7%	8.0%	3.6%	18.9%	1.97	48.1%	B+	2.25%	26.4%	
KFRC	\$37.99	\$864	(0.9)	(4.8)	(5.0)	4.1	18.1	(4.3)		24.9%	-6.0%	14.4%	8.0%	7.2%	48.2%	1.07	42.4%	B	1.81%	33.6%	
KELYA	\$18.75	\$733	(4.5)	(15.6)	(22.5)	(32.9)	(16.0)	(17.0)		4.9%	12.4%	23.1%	6.5%	9.6%	-18.0%	0.66	3.8%	B	1.33%	16.6%	
RHI	\$61.05	\$7,177	0.0	(2.2)	3.9	1.1	0.5	(3.3)	7.1	4.4%	175.0%	-527.3%	-18.1%	-33.8%	14.3%	1.34	18.1%	B+	1.96%	31.3%	
KFY	\$42.45	\$2,348	(0.5)	1.1	14.5	7.3	(3.8)	0.1		3.6%	21.2%	10.9%	-25.8%	-5.5%		1.15	37.7%	B	0.94%	12.4%	
RAND-NL	\$59.17	\$10,845	0.6	(1.7)	7.6	14.8	23.9	(1.2)	-4.0	15.4%	-7.6%	24.1%	4.2%	6.7%	24.7%	1.09	21.6%		4.17%	67.1%	
TBI	\$22.66	\$883	(1.7)	(4.1)	(4.3)	0.7	(5.1)	(5.8)		10.3%	-5.0%	27.5%	-9.8%	-7.1%	8.0%	1.21	11.1%	B	0.00%	0.0%	
Average		\$4,051	(1.1)	(4.4)	(0.8)	(0.5)	6.2	(5.0)	1.5	8.4%	28.8%	-56.2%	-3.9%	-2.7%	16.0%	1.21	26.1%		1.78%	26.8%	
Median		\$2,348	(0.9)	(3.8)	0.6	1.6	0.5	(3.9)	1.5	4.9%	11.4%	23.1%	4.2%	3.6%	16.6%	1.15	21.6%		1.81%	26.4%	
SPX	\$3,273		(0.1)	1.0	7.8	8.4	24.0	1.3			11.5%	22.1%	4.2%	11.2%							
Ticker	2018		P/E						2018				EV/		P/CF			Sales Growth			Book
	ROE	P/B	2016	2017	2018	TTM	NTM	2019	2020	NPM	P/S	NM	OM	ROIC	EBIT	Current	NTM	STM	Pst 5yr	Equity	
MAN	12.3%	2.05	23.6	30.1	11.6	11.7	12.4	15.4	14.9	1.7%	0.29	2.5%	3.8%	16.1%	5.7	9.2	-2.0%	2.1%	1.7%	\$45.55	
KFRC	67.2%	4.73	4.6	5.4	5.7	17.7	14.2	6.5	6.1	0.2%	0.01	4.1%	5.8%	23.4%	10.5	51.2	2.3%		4.2%	\$8.03	
KELYA	7.6%	0.58	12.9	13.7	8.4	10.4	9.9	7.2	6.6	0.2%	0.02	0.4%	1.6%	2.0%	8.7		-2.5%		0.4%	\$32.43	
RHI	-10.0%	6.47	609.8	252.5	-60.9	15.8	15.1	-79.3	-119.7	-0.9%	0.62	7.5%	10.1%	40.0%	11.4	11.0	4.2%	4.0%	6.4%	\$9.44	
KFY	18.4%	1.87	9.5	11.0	9.5	13.2	12.7	13.7	14.5	0.9%	0.09	5.1%	12.6%	7.0%	9.0	16.3	4.7%			\$22.71	
RAND-NL	13.6%	2.23	17.3	21.2	12.7	15.5	13.4	15.8	14.8	4.2%	0.68	3.0%	3.9%	14.3%	9.1	9.1	-3.6%		7.5%	\$26.55	
TBI	38.4%	1.42	4.9	5.7	3.6	12.9	11.7	4.1	4.4	3.7%	0.14	2.6%	3.1%	9.8%	11.9	10.5	-4.6%	-0.8%	8.4%	\$15.94	
Average	21.1%	2.76	97.5	48.5	-1.3	13.9	12.8	-2.4	-8.4	1.4%	0.26	3.6%	5.8%	16.1%	9.5	17.9	-0.2%	1.7%	4.8%		
Median	13.6%	2.05	12.9	13.7	8.4	13.2	12.7	7.2	6.6	0.9%	0.14	3.0%	3.9%	14.3%	9.1	10.7	-2.0%	2.1%	5.3%		
spx			19.0	20.3	15.6			19.5	17.6												

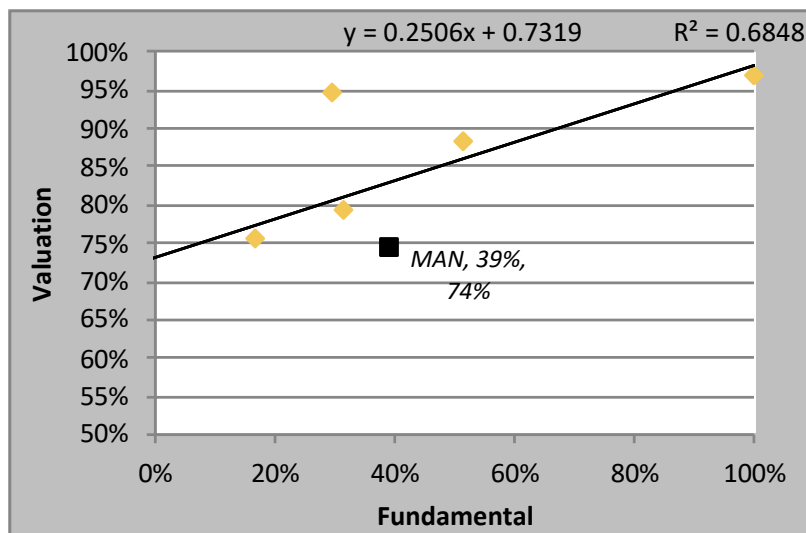
Source: FactSet, IMCP

For a final comparison, I created a composite ranking of several valuation and fundamental metrics. Since the variables have different scales, each was converted to a percentile before calculating the composite score. Growth rate of the past five years, and an equal weighting of TTM and NTM P/E ratio composite. The resulting regression line had an R-squared of 0.69. MAN is just below the line, indicating it is slightly undervalued based on its fundamentals.

Figure 22: Fundamentals vs Valuation

Ticker	Rank	Diff	Target Value	Weight 100.0%		50.0%		50.0%	
				Weighted		Fundamental	Valuation		
				Fund	Value	Pst 5yr	TTM	NTM	
MAN	5	-54%	20%	39%	74%	39%	66%	82%	
KFRC	7	27%	124%	100%	97%	100%	100%	94%	
KELYA	1	-174%	-112%	-37%	62%	-37%	59%	66%	
RHI	3	-91%	3%	30%	95%	30%	89%	100%	
KFY	4	-73%	6%	31%	79%	31%	74%	84%	
RAND-NL	6	-48%	40%	51%	88%	51%	87%	89%	
TBI	2	-94%	-19%	17%	75%	17%	73%	78%	

Source: Factset, IMCP

**Figure 23: Composite relative valuation**

Source: FactSet, IMCP

### Discounted Cash Flow Analysis

A three stage discounted cash flow model was also used to value MAN.

For the purpose of this analysis, the company's cost of equity was calculated to be 12.6% using the Capital Asset Pricing Model. The underlying assumptions used in calculating this rate are as follows:

- The risk free rate, as represented by the ten year Treasury bond yield, is 1.59%.
- A ten year beta of 1.49 was utilized since the company has higher risk than the market.
- A long term market rate of return of 9% was assumed, since historically, the market has generated an annual return of about 9%.

Given the above assumptions, the cost of equity is 12.60% (1.59 + 1.49 (9.00 – 1.59)).

*Stage One* - The model's first stage simply discounts fiscal years 2020 and 2021 free cash flow to equity (FCFE). These per share cash flows are forecasted to be \$7.51 and \$7.17, respectively. Discounting these cash flows, using the cost of equity calculated above, results in a value of \$13.11 per share. Thus, stage one of this discounted cash flow analysis contributes \$13.11 to value.

*Stage Two* - Stage two of the model focuses on fiscal years 2022 to 2026. During this period, FCFE is calculated based on revenue growth, NOPAT margin and capital growth assumptions. The resulting cash flows are then discounted using the company's 12.60% cost of equity. I assume 1% sales growth in 2022 raising to 3.0% in 2026. The ratio of NWC and NFA to sales will remain at 2020 levels Also, the NOPAT margin is expected to rise to 3.0% in 2021 from 2.7% in 2022.

**Figure 24: FCFE and discounted FCFE, 2020 – 2026**

	2020	2021	2022	2023	2024	2025	2026
FCFE	\$ 7.51	\$ 8.17	\$ 8.05	\$ 8.09	\$ 7.76	\$ 8.22	\$ 8.56
Discounted FCFE	\$ 6.67	\$ 6.44	\$ 5.64	\$ 5.03	\$ 4.28	\$ 4.03	\$ 3.72

Added together, first and second stage discounted cash flows total \$35.80.

*Stage Three* – Net income for the years 2022 – 2026 is calculated based upon margin and growth assumptions used to determine FCFE in stage two. EPS is expected to grow from \$7.07 in 2020 to \$8.56 in 2026.

**Figure 25: EPS estimates for 2020 – 2026**

	2020	2021	2022	2023	2024	2025	2026
EPS	\$ 7.90	\$ 8.37	\$ 8.69	\$ 9.05	\$ 9.54	\$ 10.06	\$ 10.62

Stage three of the model requires an assumption regarding the company's terminal price-to-earnings ratio. Manpower's average P/E ratio over the past 5 years is roughly 13. This aligns closely with the P/E ratio of the company's peer group. Over the long-term, sales should grow with the economy, but EPS is more volatile. This multiple is relatively stable. Therefore, a P/E of 13, somewhat lower than the S&P 500 P/E of 15-17 is expected.

Given the assumed terminal earnings per share of \$10.62 and a price to earnings ratio of 13, a terminal value of \$140.13 per share is calculated. Using the 12.60% cost of equity, this number is discounted back to a present value of \$60.94.

*Total Present Value* – given the above assumptions and utilizing a three stage discounted cash flow model, an intrinsic value of \$96.75 is calculated (13.11 + 22.69 + 60.94). Given MAN's current price of \$96.51, this model indicates that the stock is fairly valued.

#### Scenario Analysis

If MAN is able to raise sales growth to 5 percent, increasing 1% year over year from 2020 to 2026, a DCF analysis would then price the stock at \$98.16 per share.

**Figure 26: Bull Case DCF**

Summary (using P/E multiple for terminal value)		
First stage	\$13.11	Present value of first 2 year cash flow
Second stage	\$21.70	Present value of year 3-7 cash flow
Third stage	\$63.35	Present value of terminal value P/E
Value (P/E)	<b>\$98.16</b>	

If MAN fails to increase sales growth beyond 1% year over year through 2026, a DCF analysis values the stock at \$94.68 per share.

**Figure 27: Bear Case DCF**

Summary (using P/E multiple for terminal value)		
First stage	\$13.11	Present value of first 2 year cash flow
Second stage	\$24.11	Present value of year 3-7 cash flow
Third stage	\$57.46	Present value of terminal value P/E
Value (P/E)	<b>\$94.68</b>	

## Business Risks

Manpower faces significant exposure to macroeconomic conditions. This results in some of the following risks to the firm:

### Labor market conditions:

It appears that economic conditions are improving for Manpower's areas, but if conditions change in segments like Europe and Asia, Manpower will likely be negatively affected.

### Trends in the labor market:

Workforce trends have been moving toward temporary labor for decades. If firms begin to seek long term investment in human capital, opposed to the flexibility that staffing firms such as Manpower provides, MAN will struggle to grow in this environment.

### Regulatory environment:

Recent legislative action that would harm staffing agencies have been isolated thus far. California recently passed into law measures in an effort to incentivize hiring employees rather than contractors. If these political goals spread into more legislative measures, Manpower's profitability could be affected.

### Policy uncertainty:

Policy uncertainty seems to have reached a high point during the Brexit fight. We are constantly reminded that significant turmoil is never more than a single election away, turmoil could lead firms to delay investing in more manpower.

## Appendix 1: Porter's 5 Forces

### Threat of New Entrants – Relatively Low

Staffing firms rely heavily on the relationships the firms have built over time. While there is low regulatory and investment barriers, the market for staffing firms is relatively saturated already. New entrants into the market appear to be unlikely at this time.

### Threat of Substitutes – Medium

Hiring employees is a direct substitute to using staffing firms. If firms are more confident in their long run prospects they may lean towards hiring employees rather than hiring a staffing firm.

### Supplier Power - Low

Wages are usually taken as a market price for staffing firms. While buyers are unlikely to have any influence over the pricing, the firm is exposed to the broader market setting prices.

### Buyer Power – Low

Similar to supplier power, the labor market dictates the rates that staffing agencies provide and receive from corporate clients. It is unlikely that firm, regardless of size, are able to wield influence over customers in this sector.

### Intensity of Competition – High

There is significant competition among firms in this sector. Since they are largely price takers, they compete on the relationships they have with firms.



**Appendix 2: SWOT Analysis**

<b>Strenghts</b>	<b>Weaknesses</b>
Well positioned in key markets Strong client base Hedged business segments	Low market power Compressing margins Low growth potention
<b>Opportunities</b>	<b>Threats</b>
Expansion in Asia Labor market trends Strong labor market	Macro trends Regulatory environment Currency fluxuations

**Appendix 3: Income Statement**

<b>Income Statement (In millions)</b>							
<b>Items</b>	<b>Jan-15</b>	<b>Jan-16</b>	<b>Jan-17</b>	<b>Jan-18</b>	<b>Jan-19</b>	<b>Jan-20</b>	<b>Jan-21</b>
Sales	\$19,330	\$19,654	\$21,034	\$21,991	\$21,060	\$21,189	\$21,254
Direct costs	16,034	16,320	17,549	18,412	17,664	17,772	17,827
Gross Margin	3,296	3,334	3,485	3,579	3,396	3,417	3,427
SG&A, R&D, and other	2,587	2,583	2,662	2,743	2,649	2,633	2,598
EBIT	709	751	823	836	747	784	829
Interest	48	49	86	81	33	33	33
EBT	661	702	737	755	714	751	796
Taxes	242	258	192	198	229	241	255
Income	419	444	545	557	485	510	541
Other	-	-	-	-	-	-	-
Net income	419	444	545	557	485	510	541
Basic Shares	76.8	70.1	67.1	64.6	64.6	64.6	64.6
Fully Diluted Shares	77.7	70.8	67.9	65.1	65.1	65.1	65.1
EPS	\$5.46	\$6.33	\$8.12	\$8.62	\$7.51	\$7.90	\$8.37
EPS Fully Diluted	\$5.39	\$6.27	\$8.03	\$8.56	\$7.45	\$7.84	\$8.30
DPS	\$1.58	\$1.69	\$1.84	\$1.97	\$2.01	\$2.01	\$2.01

## Appendix 4: Balance Sheets

Balance Sheet (in millions)							
Items	Jan-15	Jan-16	Jan-17	Jan-18	Jan-19	Jan-20	Jan-21
Cash	731	599	689	592	670	1,025	1,423
Operating assets ex cash	4,362	4,534	5,482	5,405	5,400	5,433	5,450
Operating assets	5,093	5,133	6,171	5,997	6,070	6,458	6,873
Operating liabilities	3,451	3,659	4,810	4,176	4,011	4,036	4,048
NOWC	1,642	1,474	1,361	1,821	2,059	2,423	2,825
NOWC ex cash (NWC)	911	876	672	1,229	1,389	1,397	1,402
NFA	2,425	2,441	2,712	2,523	2,671	2,687	2,696
<i>Invested capital</i>	<i>\$4,067</i>	<i>\$3,915</i>	<i>\$4,073</i>	<i>\$4,344</i>	<i>\$4,730</i>	<i>\$5,110</i>	<i>\$5,521</i>
Marketable securities	-	-	-	-	-	-	-
<i>Total assets</i>	<i>\$7,518</i>	<i>\$7,574</i>	<i>\$8,884</i>	<i>\$8,520</i>	<i>\$8,741</i>	<i>\$9,146</i>	<i>\$9,569</i>
Short-term and long-term debt	\$855	\$825	\$948	\$1,075	\$1,116	\$1,116	\$1,116
Other liabilities	587	728	351	644	854	854	854
Debt/equity-like securities	-	-	-	-	-	-	-
Equity	2,625	2,362	2,775	2,625	2,760	3,140	3,551
<i>Total supplied capital</i>	<i>\$4,067</i>	<i>\$3,915</i>	<i>\$4,073</i>	<i>\$4,344</i>	<i>\$4,730</i>	<i>\$5,110</i>	<i>\$5,521</i>
<i>Total liabilities and equity</i>	<i>\$7,518</i>	<i>\$7,574</i>	<i>\$8,884</i>	<i>\$8,520</i>	<i>\$8,741</i>	<i>\$9,146</i>	<i>\$9,569</i>

## Appendix 5: Sales Forecast

Sales							
Items	Jan-15	Jan-16	Jan-17	Jan-18	Jan-19	Jan-20	Jan-21
Sales	\$19,330	\$19,654	21,034	\$21,991	\$21,060	\$21,189	\$21,254
<i>Growth</i>		1.7%	7.0%	4.5%	-4.2%	0.6%	0.3%
Americas	4,492	4,297	4,216	4,159	4,050	4,070	4,080
<i>Growth</i>		-4.3%	-1.9%	-1.4%	-2.6%	0.5%	0.3%
<i>% of sales</i>	23.2%	21.9%	20.0%	18.9%	19.2%	19.2%	19.2%
Southern Europe	7,292	7,498	8,657	9,372	8,811	8,855	8,877
<i>Growth</i>		2.8%	15.5%	8.3%	-6.0%	0.5%	0.3%
<i>% of sales</i>	37.7%	38.1%	41.2%	42.6%	41.8%	2.0%	41.8%
Northern Europe	5,034	5,129	5,306	5,371	5,219	5,219	5,219
<i>Growth</i>		1.9%	3.5%	1.2%	-2.8%	0.0%	0.0%
<i>% of sales</i>	26.0%	26.1%	25.2%	24.4%	24.8%	24.6%	6.0%
Asia Pacific, Middle East	2,239	2,471	2,636	2,890	2,800	2,864	2,897
<i>Growth</i>		10.4%	6.7%	9.6%	-3.1%	2.3%	1.2%
<i>% of sales</i>	11.6%	12.6%	12.5%	13.1%	13.3%	13.5%	13.6%
Right Management	274	259	218	200	180	180	180
<i>Growth</i>		-5.4%	-15.8%	-8.5%	-9.8%	0.0%	0.0%
<i>% of sales</i>	1.4%	1.3%	1.0%	0.9%	0.9%	0.8%	0.8%

## Appendix 6: Ratios

Ratios							
Items	Jan-15	Jan-16	Jan-17	Jan-18	Jan-19	Jan-20	Jan-21
<b>Profitability</b>							
Gross margin	17.1%	17.0%	16.6%	16.3%	16.1%	16.1%	16.1%
Operating (EBIT) margin	3.7%	3.8%	3.9%	3.8%	3.5%	3.7%	3.9%
Net profit margin	2.2%	2.3%	2.6%	2.5%	2.3%	2.4%	2.5%
<b>Activity</b>							
NFA (gross) turnover		8.08	8.16	8.40	8.11	7.91	7.90
Total asset turnover		2.60	2.56	2.53	2.44	2.37	2.27
<b>Liquidity</b>							
Op asset / op liab	1.48	1.40	1.28	1.44	1.51	1.60	1.70
NOWC Percent of sales		7.9%	6.7%	7.2%	9.2%	10.6%	12.3%
<b>Solvency</b>							
Debt to assets	11.4%	10.9%	10.7%	12.6%	12.8%	12.2%	11.7%
Debt to equity	32.6%	34.9%	34.1%	41.0%	40.4%	35.5%	31.4%
Other liab to assets	7.8%	9.6%	4.0%	7.6%	9.8%	9.3%	8.9%
Total debt to assets	19.2%	20.5%	14.6%	20.2%	22.5%	21.5%	20.6%
Total liabilities to assets	65.1%	68.8%	68.8%	69.2%	68.4%	65.7%	62.9%
Debt to EBIT	1.21	1.10	1.15	1.29	1.49	1.42	1.35
EBIT/interest	14.77	15.33	9.57	10.32	22.64	23.76	25.12
Debt to total net op capital	21.0%	21.1%	23.3%	24.8%	23.6%	21.8%	20.2%
<b>ROIC</b>							
NOPAT to sales	2.3%	2.4%	2.9%	2.8%	2.4%	2.5%	2.6%
Sales to NWC		22.00	27.19	23.14	16.09	15.21	15.19
Sales to NFA		8.08	8.16	8.40	8.11	7.91	7.90
Sales to IC ex cash		5.91	6.28	6.16	5.39	5.20	5.20
Total ROIC ex cash		14.3%	18.2%	17.3%	13.0%	13.1%	13.8%
NOPAT to sales	2.3%	2.4%	2.9%	2.8%	2.4%	2.5%	2.6%
Sales to NOWC		12.62	14.84	13.82	10.86	9.46	8.10
Sales to NFA		8.08	8.16	8.40	8.11	7.91	7.90
Sales to IC		4.92	5.27	5.23	4.64	4.31	4.00
Total ROIC		11.9%	15.2%	14.7%	11.2%	10.8%	10.6%
NOPAT to sales	2.3%	2.4%	2.9%	2.8%	2.4%	2.5%	2.6%
Sales to EOY NWC	21.22	22.45	31.31	17.89	15.16	15.16	15.16
Sales to EOY NFA	7.97	8.05	7.75	8.72	7.88	7.88	7.88
Sales to EOY IC ex cash	5.79	5.93	6.22	5.86	5.19	5.19	5.19
Total ROIC using EOY IC ex cash	13.5%	14.3%	18.0%	16.4%	12.5%	13.0%	13.7%
NOPAT to sales	2.3%	2.4%	2.9%	2.8%	2.4%	2.5%	2.6%
Sales to EOY NOWC	11.78	13.33	15.46	12.08	10.23	8.75	7.52
Sales to EOY NFA	7.97	8.05	7.75	8.72	7.88	7.88	7.88
Sales to EOY IC	4.75	5.02	5.16	5.06	4.45	4.15	3.85
Total ROIC using EOY IC	11.1%	12.1%	14.9%	14.2%	10.7%	10.4%	10.2%
<b>ROE</b>							
<b>5-stage</b>							
EBIT / sales		3.8%	3.9%	3.8%	3.5%	3.7%	3.9%
Sales / avg assets		2.60	2.56	2.53	2.44	2.37	2.27
EBT / EBIT		93.5%	89.6%	90.3%	95.6%	95.8%	96.0%
Net income / EBT		63.2%	73.9%	73.8%	67.9%	67.9%	67.9%
ROA		5.9%	6.6%	6.4%	5.6%	5.7%	5.8%
Avg assets / avg equity		3.03	3.20	3.22	3.21	3.03	2.80
ROE		17.8%	21.2%	20.6%	18.0%	17.3%	16.2%
<b>3-stage</b>							
Net income / sales		2.3%	2.6%	2.5%	2.3%	2.4%	2.5%
Sales / avg assets		2.60	2.56	2.53	2.44	2.37	2.27
ROA		5.9%	6.6%	6.4%	5.6%	5.7%	5.8%
Avg assets / avg equity		3.03	3.20	3.22	3.21	3.03	2.80
ROE		17.8%	21.2%	20.6%	18.0%	17.3%	16.2%
Payout Ratio		26.7%	22.7%	22.9%	26.8%	25.5%	24.0%
Retention Ratio		73.3%	77.3%	77.1%	73.2%	74.5%	76.0%
Sustainable Growth Rate		13.1%	16.4%	15.9%	13.2%	12.9%	12.3%

## Appendix 7: Cash Flow Statement

<b>Cash Flow Statement</b>						
<b>Items</b>	<b>Jan-16</b>	<b>Jan-17</b>	<b>Jan-18</b>	<b>Jan-19</b>	<b>Jan-20</b>	<b>Jan-21</b>
<b>Cash from Operatings (understated - depr'n added to net assets)</b>						
Net income	\$444	\$545	\$557	\$485	\$510	\$541
Change in Net Working Capital ex cash	35	204	(558)	(160)	(8)	(4)
Cash from operations	\$479	\$749	(\$1)	\$325	\$502	\$536
<b>Cash from Investing (understated - depr'n added to net assets)</b>						
Change in NFA	(\$16)	(\$271)	\$190	(\$148)	(\$16)	(\$8)
Change in Marketable Securities	\$0	\$0	\$0	\$0	\$0	\$0
Cash from investing	(\$16)	(\$271)	\$190	(\$148)	(\$16)	(\$8)
<b>Cash from Financing</b>						
Change in Short-Term and Long-Term Debt	(\$30)	\$122	\$128	\$41	\$0	\$0
Change in Other liabilities	141	(377)	293	210	0	0
Change in Debt/Equity-Like Securities	0	0	0	0	0	0
Dividends	(118)	(124)	(127)	(130)	(130)	(130)
Change in Equity ex NI and Dividends	(588)	(8)	(580)	(220)	0	0
Cash from financing	(\$596)	(\$387)	(\$286)	(\$99)	(\$130)	(\$130)
<b>Change in Cash</b>	<b>(132)</b>	<b>91</b>	<b>(97)</b>	<b>78</b>	<b>355</b>	<b>398</b>
<b>Beginning Cash</b>	<b>731</b>	<b>599</b>	<b>689</b>	<b>592</b>	<b>670</b>	<b>1025</b>
<b>Ending Cash</b>	<b>\$598</b>	<b>\$689</b>	<b>\$592</b>	<b>\$670</b>	<b>\$1,025</b>	<b>\$1,423</b>

## Appendix 8: 3-stage DCF Model

	Year						
	1	2	3	4	5	6	7
<b>First Stage</b>							
<b>Year ending January</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2024</b>	<b>2026</b>
<i>Sales Growth</i>	0.6%	0.3%	1.0%	1.5%	2.8%	2.8%	3.0%
<i>NOPAT / S</i>	2.5%	2.6%	2.7%	2.8%	2.9%	2.9%	3.0%
<i>S / NWC</i>	15.16	15.16	15.16	15.16	15.16	15.16	15.16
<i>S / NFA (EOY)</i>	7.88	7.88	7.88	7.88	7.88	7.88	7.88
<i>S / IC (EOY)</i>	5.19	5.19	5.19	5.19	5.19	5.19	5.19
<i>ROIC (EOY)</i>	13.0%	13.7%	14.1%	14.5%	14.8%	15.2%	15.6%
<i>ROIC (BOY)</i>		13.8%	14.2%	14.7%	15.2%	15.6%	16.0%
<i>Share Growth</i>		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Sales</b>	\$21,189	\$21,254	\$21,466	\$21,788	\$22,388	\$23,003	\$23,693
<b>NOPAT</b>	\$533	\$563	\$584	\$608	\$640	\$674	\$711
<i>Growth</i>		5.7%	3.7%	4.1%	5.3%	5.3%	5.5%
<b>- Change in NWC</b>	8	4	14	21	40	41	46
<i>NWC EOY</i>	1397	1402	1416	1437	1477	1517	1563
<i>Growth NWC</i>		0.3%	1.0%	1.5%	2.8%	2.8%	3.0%
<b>- Chg NFA</b>	16	8	27	41	76	78	88
<i>NFA EOY</i>	2,687	2,696	2,723	2,763	2,839	2,917	3,005
<i>Growth NFA</i>		0.3%	1.0%	1.5%	2.8%	2.8%	3.0%
<b>Total inv in op cap</b>	25	13	41	62	116	119	133
<b>Total net op cap</b>	4085	4097	4138	4200	4316	4435	4568
<b>FCFF</b>	\$508	\$550	\$543	\$546	\$525	\$555	\$578
<i>% of sales</i>	2.4%	2.6%	2.5%	2.5%	2.3%	2.4%	2.4%
<i>Growth</i>		8.4%	-1.4%	0.5%	-3.9%	5.8%	4.1%
<b>- Interest (1-tax rate)</b>	22	22	23	23	24	24	25
<i>Growth</i>		0.0%	1.0%	1.5%	2.8%	2.8%	3.0%
<b>FCFE w/o debt</b>	\$485	\$528	\$520	\$523	\$501	\$531	\$553
<i>% of sales</i>	2.3%	2.5%	2.4%	2.4%	2.2%	2.3%	2.3%
<i>Growth</i>		8.8%	-1.5%	0.5%	-4.1%	6.0%	4.1%
<b>/ No Shares</b>	64.6	64.6	64.6	64.6	64.6	64.6	64.6
<b>FCFE</b>	\$7.51	\$8.17	\$8.05	\$8.09	\$7.76	\$8.22	\$8.56
<i>Growth</i>		8.8%	-1.5%	0.5%	-4.1%	6.0%	4.1%
<b>* Discount factor</b>	0.89	0.79	0.70	0.62	0.55	0.49	0.43
<b>Discounted FCFE</b>	\$6.67	\$6.44	\$5.64	\$5.03	\$4.28	\$4.03	\$3.72
<b>Third Stage</b>							
<b>Terminal value P/E</b>							
Net income	\$510	\$541	\$561	\$585	\$617	\$650	\$686
<i>% of sales</i>	2.4%	2.5%	2.6%	2.7%	2.8%	2.8%	2.9%
EPS	\$7.90	\$8.37	\$8.69	\$9.05	\$9.54	\$10.06	\$10.62
<i>Growth</i>		6.0%	3.8%	4.2%	5.4%	5.4%	5.6%
Terminal P/E							13.20
* Terminal EPS							\$10.62
Terminal value							\$140.14
* Discount factor							0.43
Discounted terminal value							\$60.95
<b>Summary (using P/E multiple for terminal value)</b>							
First stage	\$13.11	Present value of first 2 year cash flow					
Second stage	\$22.69	Present value of year 3-7 cash flow					
Third stage	\$60.95	Present value of terminal value P/E					
Value (P/E)	<b>\$96.75</b>						