

FINAL TRANSCRIPT

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ADEN.VX - Q3 2011 Adecco SA Earnings Conference Call

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PRESENTATION

Operator

Good morning or good afternoon. I am Dino, the Chorus Call operator for this conference.

Welcome to the Adecco Q3 2011 results analyst and investors' conference call. Please note that for the duration of the presentation, all participants will be in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. (Operator Instructions).

At this time, I would like to turn the conference over to Miss Karin Selfors, Head of Investor Relations; accompanied by Mr. Patrick De Maeseneire, CEO; and Mr. Dominik de Daniel, CFO. Please go ahead.



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Karin Selfors - Adecco S.A. - Head of IR

Good morning, ladies and gentlemen, and welcome to Adecco's third quarter 2011 results conference call. Patrick, Group CEO, and Dominik, Group CFO, will lead you through the presentation today followed by a Q&A session.

Before we start, as always, please have a look at the forward-looking statement in this presentation.

And here's a quick look at today's agenda. Patrick will present the operational highlights to you, then Dominik reviews, as always, the financials, after which Patrick will give you an outlook on our business before we open the lines for your questions. Patrick, over to you.

Patrick De Maeseneire - Adecco S.A. - Group CEO

Thank you, Karin. Good morning, ladies and gentlemen, and welcome to today's results conference call. I start with the highlights of the third quarter.

Once more, we achieved solid revenue growth of 7% organically in the third quarter, and this, on top of a strong third quarter last year when we had revenue growth of 17% organically.

Not much changed in terms of the business mix. General Staffing still grew ahead of the Professional segment this quarter. At largest markets, France and North America, delivered solid revenue growth, whereas we continue to do well in General Staffing in North America; growth in Professional Staffing is disappointing, especially in IT.

Germany, Italy and the emerging markets all maintained double-digit growth in Q3. Japan and Benelux performed better than the markets, and Nordics is behind due to our specific situation in Norway which is now solved.

The gross margin improved sequentially by 30 basis points to 17.2%. On a year-on-year comparison, the gross margin was down 60 basis points still impacted by the business mix.

We continue to do well on the cost side. SG&A was down 1% sequentially on an organic basis. EBITA came in at EUR226 million in Q3, up 2% in constant currency. EBITA margin was 4.3% and compares to 4.5% in the third quarter of last year.

Included in Q3 this year are costs of EUR2 million related to the recent DBM acquisition, and a negative impact of EUR4 million from Nordics. Dominik will discuss this later.

Adjusted for business days, revenues in September were up 8%. In October, revenue growth was in the mid single digit range.

Let me now go through the organic revenue development by region. All regions achieved solid revenue growth this quarter. In North America, we had 5% revenue growth in Q3 2011. General Staffing grew 10% while in Professional Staffing, the growth was flat year on year; this held back by the IT segment and compared to a very strong third quarter in the Engineering & Technical segment where last year, we grew 49% organically.

In Europe, revenues in Q3 were up 7%. As mentioned before, Germany and Italy both grew strongly double digit and better than the markets. Growth in France was solid and UK and Ireland's revenues were up 2% this quarter.

Rest of World, including emerging markets, was up 11%. With revenue growth of 6% in Japan, we were clearly ahead of the market. Revenues in Australia and New Zealand were up 8% and the emerging markets continued to deliver very solid revenue growth of 17%.

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We now go through our main markets. In our largest market, France, revenues increased by 7% to EUR1.6 billion. Growth continued to be driven by demand in automotive, manufacturing and logistics. The development in Perm business was again very solid with revenues increasing by 25% in Q3 this year.

The EBITA margin this quarter was 4% compared to 4.4% a year ago.

The reduction in the French payroll tax subsidies had a negative impact of 30 basis points on the French gross margin in Q3. Whereas we are slightly behind initial assumptions in the third quarter this year, we are confident to limit the negative impact of the full-year's French gross margin to around 20 basis points. Where negotiations are not successful, we will walk away from the business.

For the full year 2011, the impact is expected to be minimal for the Adecco Group as a whole. In September, revenues increased by 7%, adjusted for trading days.

In North America, revenues were up 5% in constant currency. Demand was still driven by the automotive, manufacturing and technology sectors. General Staffing continued to be the growth driver in North America, with revenues increasing by 10% in constant currency.

Comparing against the [high] base, the Industrial segment was up 2% while the Office business continued to grow strongly with 20%. Professional Staffing revenues were flat year on year in Q3. The development in our IT business remained a weak spot and was clearly disappointing. Additional actions have been put into place and we fully recognize that the situation has to be improved in Q1 2012.

In Perm, we achieved solid growth of 19% in constant currency in Q3. The EBITA margin was 4.2% in the third quarter this year, up 10 basis points year on year. In September, revenues were up 4% adjusted for trading days.

Revenues in the UK and Ireland increased by 2% in constant currency in Q3. Revenues in the public sector, which represents roughly 12% of our total revenues in the UK and Ireland, declined by 22% in constant currency this quarter.

Perm business, on the other hand, again delivered good growth with revenues up 15% in constant currency.

The profitability continued to improve on a sequential basis and year on year, the EBITA margin was up 50 basis points to 2.9%.

In Japan, revenues were up 6% in constant currency to EUR350 million. While the outsourcing contracts continued to contribute positively, the overall temp market remains stable quarter on quarter and shows no real signs of improvement.

With an EBITA margin of 5.5%, we again achieved a market-leading profitability in Japan.

As mentioned earlier, revenue growth in Germany and Austria was clearly ahead of the market. In Q3, revenues grew 23% driven by automotive, retail, manufacturing and electronics. The Industrial Staffing business maintained its strong double-digit revenue growth and was up 26%. Also, the Office business grew 12% and the Professional Staffing business was up 18% this quarter.

EBITA was up strongly, by 29% year on year to EUR40 million. The EBITA margin was 9.6%, up 40 basis points compared to Q3 last year.

In September, revenues were up 19% adjusted for trading days, despite a very tough comparison base.

Finally, we turn to our development by business line on a constant currency basis. In Q3, revenues in our General Staffing business were up 9%. The Industrial business was again growing stronger than the Group average, with revenues up 9% in Q3.

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The growth was strongest in Germany and Austria where revenues grew by 26% year on year, and in Italy with a revenue growth of 21%.

In France revenues increased 7% year on year, running against a high comparison base, and similarly in North America where revenues were up 2% year on year.

The Office business grew 8% this quarter. In Japan revenues were up 6%. Growth in North America remained strong with revenues up 20%. On the other hand revenues in the UK and Ireland were up 1%, while the Nordics region was down 4%, and revenues in France were flat year on year in the Office business.

Revenues in Professional Staffing increased by 2% in Q3. Growth was again strong in Germany and Austria and France; both achieved double-digit revenue growth. In North America and the UK and Ireland the revenues were flat year on year in the quarter under review.

Our Solutions business declined by 4% on an organic basis, mainly driven by the current cyclical Outplacement business. MSP, RPO and VMS revenues on the other hand grew strongly, double digit.

And now I would like to hand over to Dominik who will discuss the financials in more detail with you.

Dominik de Daniel - Adecco S.A. - Group CFO

Thank you, Patrick. Good morning ladies and gentlemen; welcome from my side as well. I will start with the overview of the P&L. Before I start, please note that included as of September 1, 2011 are the results of DBM.

In Q3, 2011, we had revenues of EUR5.3 billion, up 7% in constant currency and organically. The gross margin was 17.2% in Q3, 2011, down 60 basis points compared to prior year. Sequentially, from Q2 to Q3, the gross margin improved by 30 basis points.

SG&A was up 5% in constant currency in Q3 compared to the prior year. Sequentially, on an organic basis, the cost base was down 1%. The Group EBITA was EUR226 million. The EBITA margin was 4.3% this quarter which compared to 4.5% last year, and 3.9% in Q2.

Results include EUR2 million acquisition-related costs for DBM, and a EUR4 million negative impact from Nordics, which I will discuss later.

Net income in the quarter under review was EUR145 million, up 13% year on year.

Let's discuss the gross margin in more detail now. The upper part of the slide shows the year-on-year development on which I will focus first. As said, the Group's gross margin in Q3 was 17.2%, down 60 basis points year on year.

Temporary Staffing had a negative impact of 50 basis points on the Group's gross margin in Q3, 2011. They're up 10 basis points related to the French payroll tax subsidy cut. The business mix compared to prior year still impacted the Temp gross margin.

Permanent placement positively contributed to the Group's gross margin with 10 basis points in Q3. Our Perm revenues were up 18% in constant currency in the quarter under review, driven by North America, France and the emerging markets.

The negative impact of the Outplacement business further eased in Q3, 2011, but still had a negative impact on the Group's gross margin of 20 basis points.

Other activities had a negative impact of 10 basis points.

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DBM added 10 basis points to the Group's gross margin this quarter.

Sequentially the gross margin was up 30 basis points, driven by the improvement in the Temp margin.

Now looking at the lower part of the slide you can see the sequential Temp margin development this year. Whereas the Temp margin was seasonally down 35 basis points in Q2, the Q3 Temp margin was actually up 40 basis points compared to Q2, which means that we are today even slightly above the Q1, 2011 level.

Now let me discuss how our cost base developed in the third quarter this year. We continued to manage our cost base very tightly. Sequentially our cost base was down 1% on an organic basis. SG&A increased by 5% in constant currency and organically compared to Q3 last year.

Organically, FTEs were up 4% year on year. Sequentially FTEs were up 1% organically mainly due to hirings in North America and in the emerging markets.

Note that our Q3, 2011 results include EUR2 million related to the recent DBM acquisition, and EUR4 million negative impact from Nordics. On the other hand, Q3, 2010 included integration costs related to Spring and MPS of EUR9 million (sic - see press release).

On the EUR4 million related to Nordics, specifically Norway, let me make the following remarks. In Q3 the independent investigation with the aim to review and assess our internal processes was completed and made public. No new evidence of non-compliance with local labor laws were found. This was a major milestone for us, and we believe that the [trough] is reached in terms of the impact of our business.

The EUR4 million impact in Q3 was related to the finalization of the independent investigation and remaining expenses related to the exit from the nursing home outsourcing business. From today's perspective, no additional costs are expected to be incurred related to Norway.

On DBM, the integration was kicked off successfully and targeted synergies of EUR10 million are expected to be fully realized in 2012. In Q4 we expect to incur integration costs of around EUR8 million.

Going forward we continue to manage our cost base very tightly. SG&A for the Group in the fourth quarter is expected to remain approx in line with Q3 on an organic basis and before integration costs.

Moving onto the balance sheet. At the end of the third quarter we had cash and short-term investments of EUR367 million. DSO was 56 days in Q3, 2011, up 3 days compared with the prior year, mainly related to the UK and Ireland and Nordics where we are implementing new front office systems.

Goodwill and intangible assets amounted to EUR4 billion at the end of September this year. Compared to year-end 2010, goodwill and intangible assets increased by EUR126 million, primarily as a result of the acquisition of DBM. Adecco's shareholders' equity was at EUR3.6 billion at the end of September 2011.

Turning to the cash flow statement. The operating cash flow generated in the first nine months of 2011 amounted to EUR217 million compared to EUR204 million in the prior year. Especially in the most recent quarter we had strong increase of operating cash flow.

Cash used in investing activities was impacted by the purchase price [consideration] for DBM. The Group invested EUR128 million net of cash acquired for DBM. In addition, CapEx was EUR78 million in the first nine months of this year. Cash used in financing activities was EUR110 million.

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During the first nine months of 2011 we paid dividends of EUR149 million and bought back treasury shares, net of disposals, for EUR156 million. This was partly offset by the net inflows of EUR197 million related to the net increase of short and long-term debt.

Net debt at the end of September 2011 was EUR1.2 billion compared to EUR751 million at the year end of 2010.

In the first nine months of 2011 we paid dividends of EUR149 million and bought back shares, net of disposals, for EUR156 million. In addition, as just mentioned, we invested EUR128 million net of cash acquired for DBM.

Now let me give you an update on our net debt on slide 20. As you know, in April this year we lengthened our debt maturity profile. We issued a EUR500 million Eurobond, due in 2018, and we used the proceeds to reduce our debt obligation with maturities in 2013 and 2014.

[With] debt, we have no significant refinancing need in the coming years. On top of that, in October we replaced a EUR550 million Euro multicurrency revolving credit facility due in 2013 with a EUR600 million committed multicurrency revolving credit facility due in 2016.

As at the end of September 2011 we had short and long-term debt of EUR1.5 billion, and cash and short-term investments of EUR367 million. This resulted in EUR1.2 billion of net debt at the end of the third quarter this year.

Our financial guidance for 2011 remains unchanged. CapEx for the year 2011 is expected to be around EUR100 million. Interest expenses, excluding interest income, are expected to be around EUR70 million for the full-year 2011.

Our corporate costs for full-year 2011 are expected to be approximately EUR85 million. And amortization of intangible assets is expected at EUR55 million for 2011.

The underlying tax rate for the fourth quarter is expected to be around 30%.

With this, I hand back to Patrick.

Patrick De Maeseneire - Adecco S.A. - Group CEO

Thank you, Dominik. Now let me finish with the outlook for our business. Adjusted for trading days, the revenue growth remained stable throughout the third quarter and was 8% in September.

Year-on-year growth in October was in the mid single digit range. Despite the sluggish GDP development in most countries, our clients need flexibility and we continue to see good demand for our services. We remain committed to further improve the gross margin. At the same time, the cost base will be tightly managed.

SG&A for the Group, as mentioned by Dominik, is expected to remain approx in line with Q3 on an organic basis and before integration costs. From today's perspective we expect another solid quarter in Q4, 2011, and we remain absolutely committed to our mid-term goal of reaching an EBITA margin above 5.5%

And with this, I would like to open the floor for your questions.

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QUESTIONS AND ANSWERS

Operator

We will now begin the question and answer session. (Operator Instructions). Laurent Brunelle, Exane.

Laurent Brunelle - Exane BNP Paribas - Analyst

Two quick questions if I may. First, can you tell us what kind of growth do you expect from 2012 if we assume 0% GDP growth in Europe, which could happen? So will it be able to deliver positive sales growth? What's your view on that?

Second, can you come back on the tax rate? What do you expect for 2011 and beyond that? How do you see the impact on a 5% increase of the French corporate tax rate, please. Thank you.

Patrick De Maeseneire - Adecco S.A. - Group CEO

Laurent, I will take your first question on the growth for 2012.

We don't have that kind of visibility with what's going on in the economic environment. We have, of course, planned for different scenarios. And I think it's important that we, going forward, continue to do what we have always done, meaning that adjusting our cost base to the reality of the markets.

So if there is a GDP growth, we will have a growth which is exceeding that of course. If there is none, we will take out costs and we will protect our profitability.

Dominik, can you take the second question?

Dominik de Daniel - Adecco S.A. - Group CFO

If we look to the tax rate and guiding for a tax rate of 30% for Q4 and this is also more or less what you can use in the future. Now the increase of the tax in France, the tax rate of 5%, and given our size in France for the whole Group, this has maybe on the Group an impact of 1% but not more.

Laurent Brunelle - Exane BNP Paribas - Analyst

Okay, clear. And can you maybe give us more color about your October trends by country please?

Dominik de Daniel - Adecco S.A. - Group CFO

If we look to the October trends, you can basically say, we said the whole Group was up, adjusting for trading days in September, 8%. And for October, we are -- have a growth with mid single digit.

And it's pretty -- this kind of deceleration from the 8% to mid single digit it's pretty -- across all the markets, the ones where we are not seeing this so clearly, we are still similar, is Japan, UK and emerging markets and the other ones are pretty similar to what the Group is doing from this point of view.

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Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay clear, thank you.

Operator

Konrad Zomer, Berenberg Bank.

Konrad Zomer - *Berenberg Bank - Analyst*

Two questions please. First on the lower French tax subsidy. From talking to your main competitors in France, it sounds like pricing is relatively healthy in France. And could you maybe tell us a bit more why you seem to be struggling a little bit and why you are behind schedule?

And the second question is on your IT business in the US, you made it quite clear you're disappointed about their performance. But can you be a bit more specific about what you're planning to do in the next few quarters and what you have already done in terms of management, maybe, to improve this business going forward? Thank you.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Thank you Konrad. I will first take your second question on the IT business in the US.

You know we are coming out of the integration, which has done very well into the second quarter. We realized that we were not, and we recognized this already in the last call, we realized that we were not in line with the market growth.

Of course, then you look ,why is this. And one of the main reasons or the main reason is that we didn't have the adequate number of resources.

So what we have done since the end of Q2, so in the past four months, is we added people, we added FTEs, approximately 16% more than what we had at the end of Q2.

Now you cannot expect these people to be productive from day one. It takes at least six months and that's why we are saying that we have to pick up with growth again in the first quarter of next year.

But our main issue was that we had been very internally focused on the integration that this has done very well, but that we have not been externally enough, not in recruiting additional FTEs to cope with the market growth and not by broadening our customer base. Because it is the case for us that we are more exposed to financial services and government in our IT business than the market average. So those are the actions that we are taking on the IT systems.

On the lower tax subsidy, Dominik?

Dominik de Daniel - *Adecco S.A. - Group CFO*

If we look to this, we're doing progress but we are somewhat behind schedule into Q3, given the fact that some negotiations have taken really longer than initially expected. And sometimes they are taking very long. And, therefore, we are also saying that we may be here and there also we'll decide to walk from one business away if it makes no sense for us any more.

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We are still confident to reach our overall goal for this year. You have to see the most important impact will be in Q4 where it will turn into positive based on the assumption there is further price increase but also based on the assumption that the new scheme, it's different than the old scheme that has come to the social tax debate.

Konrad Zomer - *Berenberg Bank - Analyst*

Right, so you don't think -- just to follow up on that last point, you don't think that there's more pricing pressure in France than you'd expected at the start of this year?

Dominik de Daniel - *Adecco S.A. - Group CFO*

Overall, if you look sequentially from the beginning of the year, of course, our Temp margin is slightly increasing, of course, because of the social tax rebates, yes? But it's nevertheless a huge [rock] to pass this on to the clients. And we are in the process.

Konrad Zomer - *Berenberg Bank - Analyst*

Yes, okay, thank you very much.

Operator

Jaime Brandwood, UBS.

Jaime Brandwood - *UBS - Analyst*

I just wondered if I could follow up on Konrad's question about the SG&A development in the US. I think you mentioned you've added 16% more FTEs in the IT Staffing business quarter on quarter.

Can you say for the US as a whole what the FTE increase was quarter on quarter? And to what extent you feel you've now done enough or whether you're going to have to add more FTEs?

And then second question I had was with regard to permanent recruitment. Can you talk about the trends in perm through the quarter and exiting the quarter in September/October whether there's been any significant slowdown in perm in any of your major countries, where you have perm exposure?

And then lastly just on Germany, you did deliver some further EBIT margin improvement in Q3. But to what extent do you feel now the German EBIT margin is beginning to peak; is beginning to be at an optimal level, where maybe it's harder to get any further margin increase going forward? Thanks.

Dominik de Daniel - *Adecco S.A. - Group CFO*

I'll take your first question regarding -- if we look to the US, overall we sequentially increased in the US, the FTEs, by around 200, mainly related, of course, to the professionals starting but also to our Solutions business, where we're winning in a lot of new clients, which we currently roll out and have for this also some costs.

We still expect some FTE increase into Q4 but this is really especially to tackle the situation around our IT business because we're, of course, not happy with our development of our North American IT business.

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That's said; as we're investing in the IT business also in the finance business, there we see better trends in the US. We have besides the headcount increase we have also some, let's say, marketing related costs, to really stronger position the brand and these are the developments when it comes to the US.

Jaime Brandwood - UBS - Analyst

So could we see another 200 in Q4? Is that the kind of --?

Dominik de Daniel - Adecco S.A. - Group CFO

Let's say it will be less than 200 in Q4.

Jaime Brandwood - UBS - Analyst

And what is that in percentage terms, Dominik?

Dominik de Daniel - Adecco S.A. - Group CFO

This is in Q2, the 200 is 3%.

Jaime Brandwood - UBS - Analyst

3%, okay, thanks.

Dominik de Daniel - Adecco S.A. - Group CFO

And you have one question Patrick --

Jaime Brandwood - UBS - Analyst

One question was about perm. And the other question was about Germany.

Patrick De Maeseneire - Adecco S.A. - Group CEO

If we talk about Perm, our development quarter over quarter is very similar if you look at our [spot price] markets, Jaime. UK, we had a similar development, somewhat higher in Q3 than in Q2 and well spread. And we feel this will continue at similar levels or in the same range into Q4.

US, same thing; that's our second market for Perm, France, a similar development. So it's really stable and it will be in the similar range in Q4, maybe somewhat lower but let's say a similar range.

Jaime Brandwood - UBS - Analyst

So for Perm as a whole, you're still seeing double-digit growth in September/October?

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Dominik de Daniel - Adecco S.A. - Group CFO

Of course.

Patrick De Maeseneire - Adecco S.A. - Group CEO

Of course, yes.

Jaime Brandwood - UBS - Analyst

All right and then on Germany?

Dominik de Daniel - Adecco S.A. - Group CFO

If we look to Germany, I think we had very good growth of 23%. The exit rate in September with 19% looks also pretty good. So underlying, there is still good growth and this growth is still stronger in the traditional channels, Staffing business, Professionals. Those are up 18% but, of course, with 18% a little bit lower than General Staffing with 26%.

Now I'm absolutely convinced that we have further possibilities to increase our profitability in Germany. There is no question about it. Of course, Q3 has every year the highest profitability from a seasonal point of view, last year had the lowest.

Now into Q4, we have to consider the following. First of all, we have, in November again, a wage inflation for the temps. And we will pass on the majority of the wage inflation to our clients. But there will be remaining impact and maybe a lot of contracts will be -- will start then in January and not in November. So there is a little bit of impact in Q4 from the kind of wage inflation which happened already, November 1. And we had just half year ago already a wage inflation.

And then the second point is, and this is very important to take into account in Germany, the bank holidays this quarter, in Q4, are really bad because October 3, this is always a public holiday. It was last year on the weekend. This year it was Monday. And Christmas is, from a days' perspective, not so employer friendly.

So, therefore, the EBIT margin, year over year in Q4 will be a little bit down. But this is from much more related to the different working days and the [early adoption] of wage inflation than underlying. Underlying, I'm very convinced that the margin will start to improve.

You have to take into account that our Professional Staffing brand is doing well, with plus 18% but it's not yet growing faster than the other business. And in this business, our profitability is still clearly higher than in other two brands.

Jaime Brandwood - UBS - Analyst

Okay and just on the wage inflation, I guess that's the collective labor agreement. What kind of wage inflation is it in November coming through?

Dominik de Daniel - Adecco S.A. - Group CFO

2.5% for the rest of Germany.



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Jaime Brandwood - UBS - Analyst

2.5%, okay. Thanks very much, thank you.

Operator

Alain Oberhuber, MainFirst.

Alain Obarhuber - MainFirst Bank AG - Analyst

Just two questions on the gross margin. Now if we see that in Q3 Group gross margins were down by 60 basis points, do you expect then in Q4 a similar decline because what I currently expect what you said, it should be less the decline?

And then if we go into 2012, should we then, because sequentially there is an improvement fee again, a positive increase again, of the gross margins overall, so is that trend continually what we have seen in General Staffing in Q3?

The second question is about the SG&A costs, just to understand how you do the math then. When you look at the base for Q3 we deduct, obviously, the integration plus the increase of gross margin because of [DBP], which is I assume about EUR8 million, but on the other side then we adjusted for the DB integration again, which gives almost a base then for Q3 of EUR673 million, plus any adjustments. So your costs -- SG&A costs is roughly EUR700 million for Q4, is that math correct?

Dominik de Daniel - Adecco S.A. - Group CFO

If we first talk about the gross margin, we are not guiding to a gross margin here for next quarter or next year. We are committed -- we are really committed to increase our gross margins.

What I can give you is some trends, is of course from France there must be clear positive impact in Q4 given the fact that in Q4 we should have the benefit from this new social text rebate system and the price increase. This is to partly, of course not all, but partly is a compensating factor that in Germany we have more bank holidays compared to the prior year and compared to Q3. But, okay, this is only partly.

And then I think what is important from the gross margin point of view, Q3 is always the weak quarter in terms of outplacement, now Q4 will be in outplacement stronger, not because we're seeing now a pick up in outplacement, just from a seasonality point of view. And then on top you have, of course, also to consider that acquisition of DBM has a positive impact on gross margin but also an increase in cost.

Coming to the cost base development, we had the cost base, from Q2 to Q3, being down by minus 1% if we take the same currency. What we're now seeing is from Q3 to Q4 in the same currency we expect a stable cost base, taking into account that's before integration costs and of course organically. I hope I answered your question?

Alain Obarhuber - MainFirst Bank AG - Analyst

Yes. Let's go on DSO then, do you expect for -- that's the last question I have, for the last quarter that DSO will come down again to a normal level, i.e., minus three days, given that you had an increase of plus three days in Q3?

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Dominik de Daniel - Adecco S.A. - Group CFO

We had the last couple of quarters always between two days and now three days improvement and these are specific issues related to system integrations in Norway and UK. So, of course, we expect that it will go down again, but I will not give now a guidance that it will be already in Q4.

And please also consider regarding the acquisition, DBM is of course in Q3 only considered for the month of September whereas DBM is in Q4 for the whole quarter [considered].

Alain Obarhuber - MainFirst Bank AG - Analyst

I go that, thank you very much Dominik.

Operator

Tom Sykes, Deutsche Bank.

Tom Sykes - Deutsche Bank - Analyst

I just had a few questions on the gross margin again please. Your -- the Temp gross margin down 50 basis points and then the payroll tax subsidy is less of a negative. But what was the -- presumably Germany because of the bank holidays was less negative on the Temp gross margin in Q3 versus Q2. So I was just wondering whether you could outline some of the geographic mix impact on the temp gross margin please?

Dominik de Daniel - Adecco S.A. - Group CFO

I think your first question was related to year over year. So if we look to the year-over-year decline, it is 10 basis points up front and in the remaining 40 basis points, we have clearly two negative trends from a mix point of view.

This is on the one hand that our Professional Staffing with 2% growth is clearly underperforming the Group growth. And then secondly, in the maturity of the markets and this also especially in Germany, we see that the large accounts doing much better than the smaller accounts and there is, of course, also a kind of business mix.

And when we look to this, and this is more related then to Germany, in Germany the growth comes, to a very large extent, from so-called large accounts with equal pay agreements, where we have huge volumes, low cost [to serve], therefore somewhat lower gross margins. But since these are equal pay accounts, which the company is deciding, they have the opportunity to use a much higher flexible workforce.

For example, a couple of weeks ago, DaimlerChrysler negotiated with their union to increase their flexible workforce from 3% to 8%. Of course, then the workers council only agreeing if these are equal pay accounts.

You see that, therefore, the gross margin is somewhat lower, but on the other hand, like you see it in Germany, we are nevertheless able to increase our operating margin by 40 basis points.

Then, regarding sequential development, sequentially, our Temp margin, of course, goes from Q1 to Q2 always somewhat down and then from Q2 to Q3 again up, because we have, especially in Germany but also in some other countries, the impact of so many bank holidays. So we went down from Q1 to Q2 35 basis points and now, from Q2 to Q3, we went up 40. So if we now take the seasonal impacts out, we are a little bit higher in terms of Temp gross margin than in Q1.

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Tom Sykes - *Deutsche Bank - Analyst*

Okay. Thank you. And is it possible to say how much of your French gross profit is coming from low wage subsidies or whether you can give a view as to what level the industry is generating gross profit from subsidies please?

Dominik de Daniel - *Adecco S.A. - Group CFO*

Let's say this is for the whole industry a very important [tri-wire], but it's not to say that we want -- what is the exact amount. It depends also a lot from client-to-client cases.

Tom Sykes - *Deutsche Bank - Analyst*

Right. But presumably, it's a fairly important contributor to the industry gross profit, such that if those low wage subsidies weren't there, do you think that the industry would still be profitable?

Dominik de Daniel - *Adecco S.A. - Group CFO*

Let's say it is, by the end of the day, a reduction of social security costs. So for people who have a certain wage level which are closer or very close to the minimum wage, there's a reduction of social security costs and this we have to consider in our calculations. Because by the end of the day, so far, it was considered in calculations, but basically it was passed on, to a certain extent, also to the client.

Tom Sykes - *Deutsche Bank - Analyst*

Okay. Thank you. And then I've just got a couple of short questions. In terms of the French growth, how much of the revenue growth is coming from minimum wage and price improvements please, just at the revenue line?

And then the final short one was just, do you think that US light industrial or North American light industrial will actually go negative next quarter or at the beginning of Q1?

Dominik de Daniel - *Adecco S.A. - Group CFO*

Your questions relate all to wage inflation or --?

Tom Sykes - *Deutsche Bank - Analyst*

Yes. Well, presumably you get a benefit of the minimum wage plus you're actually passing on price increases, which I would -- we should get a benefit at the revenue line. So just trying to work out essentially what's happening to your French volumes and what --

Dominik de Daniel - *Adecco S.A. - Group CFO*

This is roughly 2% of the price impact.

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Tom Sykes - Deutsche Bank - Analyst

Okay. And then there's a small benefit for the minimum wage as well?

Dominik de Daniel - Adecco S.A. - Group CFO

Yes. Yes, it's included, the 2%.

Tom Sykes - Deutsche Bank - Analyst

Okay. And then in the North American light industrial, what's the outlook for that business please?

Dominik de Daniel - Adecco S.A. - Group CFO

You ask now about wage inflation or about --?

Tom Sykes - Deutsche Bank - Analyst

No, just in general volume.

Dominik de Daniel - Adecco S.A. - Group CFO

The channel trend is deceleration which we said would be coming for the Group from plus [8%] September to mid single digit. So this we see a pretty similar reflection also in our US business.

Tom Sykes - Deutsche Bank - Analyst

Okay, great. All right. Thanks very much.

Karin Selfors - Adecco S.A. - Head of IR

Thank you. Next question?

Operator

Matthijs Van Leijenhorst, Kepler.

Matthijs Van Leijenhorst - Kepler Capital Markets - Analyst

I've got one question on -- according to one of your competitors, this cycle differs from others because after the initial pickup of the General segments, and especially in Europe, you don't see really the Professional segment picking up. So what's your view on this matter going forward?

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Patrick De Maeseneire - Adecco S.A. - Group CEO

If we look -- we always said that this cycle was particularly very [long] and we still see, in our business, that the growth in General Staffing was higher than the average growth of the Group with 9% and also the Industrial was still 9%.

Now we have seen in the North American business that the Office now, also, growth was very strong, with plus 20%. Now we see that also if you speak specifically about Europe, our growth in Germany and France in Professional Staffing was strong, double digit. For Germany, we disclosed it with 18%. France was also very solid.

We recognize that we are behind in North America, but I would say in Europe, it's now coming through. So -- but, of course, since we are not growing our Professional business in England because of the specific situation of the government and the English market, and if we're not growing our Professional business in the US, we cannot grow it overall with more than 2% at what we are doing because this is 66% of our total Professional Staffing. But I would say in Europe, the cycle is now coming through normally.

Matthijs Van Leijenhorst - Kepler Capital Markets - Analyst

So you're expecting, say, Q1/Q2 2012, you're expecting really the Professional segment taking the General segment over?

Patrick De Maeseneire - Adecco S.A. - Group CEO

It should be the case in Europe and we have the clear intention to pick up with the growth again in North America as we said. For the UK, we cannot say this, of course.

Matthijs Van Leijenhorst - Kepler Capital Markets - Analyst

And just one quick follow-up on -- if I understand correctly, in Germany, in November, there will be a wage inflation?

Dominik de Daniel - Adecco S.A. - Group CFO

Yes, absolutely right, yes.

Matthijs Van Leijenhorst - Kepler Capital Markets - Analyst

Okay. And due to --

Patrick De Maeseneire - Adecco S.A. - Group CEO

2.5%.

Matthijs Van Leijenhorst - Kepler Capital Markets - Analyst

2.5% and due to bank holidays in Q4, you might expect the EBIT to come down a little bit?

Dominik de Daniel - Adecco S.A. - Group CFO

The EBIT margin.



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Matthijs Van Leijenhorst - *Kepler Capital Markets - Analyst*

Okay. Many thanks.

Karin Selfors - *Adecco S.A. - Head of IR*

Thank you. Next please?

Operator

Kean Marden, RBS.

Kean Marden - *RBS - Analyst*

I wonder -- this is probably one for Dominik, I struggled with the French payroll subsidy recovery after the second quarter and, obviously, you've missed expectations in Q3. Can I just have a couple of questions on that initially.

The guidance for a 20 basis point full-year impact, from recollection, that's unchanged through this year. Is that correct?

Dominik de Daniel - *Adecco S.A. - Group CFO*

The 20 basis point is our goal for the whole year, yes.

Karin Selfors - *Adecco S.A. - Head of IR*

Unchanged.

Dominik de Daniel - *Adecco S.A. - Group CFO*

It's unchanged. We said this since the beginning of the year. It's true that we were in Q1 [and Q4] fully in line with our expectations.

We are now -- in Q3, we are somewhat behind, but it was also related that some negotiations were a little bit longer lasting. But we hope that we can recovery this in Q4 and by the end of the day, the Q4 will be the most important thing because with the new system, we have more tax subsidies in Q4 compared to the old system. So, of course, it should have a very positive impact in Q4 compared to the prior year.

Kean Marden - *RBS - Analyst*

Okay. Mathematically, to get to your guidance for the full year, we'd need a positive 60 basis points impact if I look at the -- if I weight that by revenues throughout the quarter, which is a big swing from the minus [30] that we saw in Q3.

Now I appreciate the gross impact is obviously different because we've now moved from an uneven distribution throughout the quarters to a linear one, but that seems a number that is difficult to work back to.

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Dominik de Daniel - Adecco S.A. - Group CFO

The point of your calculation, if you take into account the plus effect that you just said, from a linear point of view, which brings the number a little bit down, it makes absolute sense. But we said from the beginning of the year, that we have to consider the impact will be in Q4 clearly above the normal level, given the fact that we have better subsidies and this is our ambition.

Kean Marden - RBS - Analyst

Okay. And then secondly, just on balance sheet, and I appreciate we live in an uncertain world at the moment, but what are your thoughts in terms of utilizing balance sheet over the next 12 months in terms of whether you feel that you've got surplus capital, whether you would apply that to M&A or whether you would look to -- look at alternative uses of that capital?

Dominik de Daniel - Adecco S.A. - Group CFO

On the M&A side, we feel that we are okay in all countries to grow organically and especially on the Professional Staffing which is our top priority, we first have to come back to market growth in the US before we would look at anything else. But again, we feel very comfortable with what we are having, so you shouldn't expect big projects from our side.

That means if you look to the balance sheet, of course, with the cash flow [from cash flow] in Q3, we get -- it starts to deliver the balance sheet but we had this year share buy-backs for EUR156 million. We bought DBM for EUR128 million net of cash acquired. Here and there we are open for bolt-on acquisitions; otherwise if the balance sheet gets more deleveraged we look for different ways to give the money also to our shareholders back.

Matthijs Van Leijenhorst - Kepler Capital Markets - Analyst

Okay, which presumably is a continuity of the buy-back program?

Dominik de Daniel - Adecco S.A. - Group CFO

We have already close to 10% but there are always different ways to -- that shareholders can participate in this.

Matthijs Van Leijenhorst - Kepler Capital Markets - Analyst

Thanks for your time.

Patrick De Maeseneire - Adecco S.A. - Group CEO

Thank you. Next question please.

Operator

Andy Grobler, Credit Suisse.



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Andy Grobler - *Credit Suisse - Analyst*

Good morning, just one question from me. Listening to some of the industrial companies across Europe, they have talked about cutting back on their temp numbers through Q4 and into Q1; companies such as Peugeot and so on. Are you seeing any evidence of that in your business or suggestions that that may come over the next few months?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

If you talk, Andy, about this specific company, indeed we are a big supplier to this company and we will have some effect of this into our fourth quarter, into our first quarter because we are one of the main supplier in France. Now you also have to put into perspective that the automotive, although growing very fast in France, is less than 5% of our business.

On the other hand, what we're seeing in Germany where automotive is 25% of our business, there the order books still look strong, and we haven't had any reaction so far of any of the companies, any of the automotive players in Germany sending temps back or reducing their number of temps. So this is very specifically related to the French market and to one of the French automotive players.

Andy Grobler - *Credit Suisse - Analyst*

And within the German auto market or industrial market in general have you seen any change in temp to perm demand?

Dominik de Daniel - *Adecco S.A. - Group CFO*

We had in Q2 some more conversions of temp to perm especially in Q2, but a little bit less in Q3. But in Q3 it's also normally not so much activity to take temp to perm. I think the trends within Q3 in Germany were pretty solid. It was still primarily driven by automotive. Some of the guys, they really saw the increase throughout the summer, and it looks still pretty okay.

Andy Grobler - *Credit Suisse - Analyst*

Great, thank you very much.

Operator

Olivier Lebrun; Natixis.

Olivier Lebrun - *Natixis - Analyst*

Good morning. I have a question about the UK market. Do you expect an additional cut in the number of temps in the public sector for 2012?

A second question's about Professional Staffing. Is it possible to know if the performance of Professional Staffing, in organic terms, for October? And, about France, did you gain market share in Q3, and could you remind your exposure to the automotive sector in this country, please?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Olivier, as I said earlier, our exposure to the automotive sector is a little bit less than 5% in France.

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Did we gain market share in France? No, we were growing in line with the market. One player was doing a bit more and the other one also a little bit more, but, let's say, this was only in Q3. In the previous quarters we were ahead -- a little bit ahead. So you should not look at growth over one quarter; you should look at it over a -- at least over a period, a year, and we have grown perfectly in line with the market, where our first goal is to increase prices. Our first goal is to increase prices, as you know.

On the UK market our exposure to the government it's now 12%. It came down from more than 17%. It was down again 22% this quarter. It has been down a bit more than 38% at the beginning of the year.

So, what we certainly can expect is that this will not increase. This will slightly further decrease but not more than that because we feel that it has now been reduced a lot. It will not increase, like I said, and it might slightly further decrease into next year, but also not more than that. The [huge] percentage drops that we have seen, [38%, 22%], you will not see any more next year, we feel, because there are limits to everything.

And then on the Professional Staffing October?

Dominik de Daniel - Adecco S.A. - Group CFO

October trend, it's a similar trend like in September, maybe a tiny bit better, but it's pretty similar.

Olivier Lebrun - Natixis - Analyst

Okay, thank you.

Operator

Toby Reeks of BofA Merrill Lynch

Toby Reeks - BofA Merrill Lynch - Analyst

A couple of questions; when you gave the auto exposure in France at 5 -- just less than 5% and Germany 25%, is that auto and related, or is it just the auto manufacturing?

Patrick De Maeseneire - Adecco S.A. - Group CEO

It's auto and related. It's also all the sub-suppliers.

Dominik de Daniel - Adecco S.A. - Group CFO

All the sub-suppliers.

Toby Reeks - BofA Merrill Lynch - Analyst

And then could you give us an idea of tax rates -- of some sort of tax rate guidance for next year? I understand it might go up by 1% at Group level due to France. But what should we be penciling in for 2012?

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Dominik de Daniel - Adecco S.A. - Group CFO

I would just use the current run rate of 30%. I think this is a feasible approach.

Toby Reeks - BofA Merrill Lynch - Analyst

Okay. And the final question is, in France you're obviously trying to, or thinking about, exiting some business that might not be profitable for you. Are you going through that process anywhere else? Is there anywhere else where you feel that there is some business that you would exit if the profit wasn't right or you're thinking about at the moment?

Dominik de Daniel - Adecco S.A. - Group CFO

If we look to this the [specific purpose] is also in France, that we have long negotiations from some clients regarding the social tax rebates to pass on, that we made this decision. Now we if we look to the US, if we have every year increase in state unemployment insurance cost, so we always make directly this decision here, if this doesn't make sense that we don't do it, but if not that we have here a special target [can be] to make this. We just say this is related to the US because we have still some negotiation pending regarding the social tax rebates.

Toby Reeks - BofA Merrill Lynch - Analyst

Okay thanks.

Dominik de Daniel - Adecco S.A. - Group CFO

And maybe one remark, I just thought about it, you have seen that in the [area] we had some sales decline, I have to say, there were some, let's say, really contracts on the markets with very low profitability where we are not willing to participate. That's maybe the reason that we are a little bit behind the market this quarter where we are normally in line with the market, a bit higher. But it's not a special program, it's just how we run the business.

Toby Reeks - BofA Merrill Lynch - Analyst

Okay, thanks.

Patrick De Maeseneire - Adecco S.A. - Group CEO

Ladies and gentlemen, thank you very much for attending this call and for your interest in our Company, and we hear each other back on March 1 when we will announce our Q4 results. Thank you very much. See you soon.

Karin Selfors - Adecco S.A. - Head of IR

Thank you.

Dominik de Daniel - Adecco S.A. - Group CFO

Thank you.

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Operator

Ladies and gentlemen, the conference is now over. Thank you for choosing the Chorus Call facility, and thank you for participating in the conference. You may now disconnect your lines. Goodbye.

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