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ADEN.VX - Q4 & Full Year 2011 Adecco SA Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, good morning. Welcome to the Adecco full year results 2011 analysts and investors conference call. I'm Moira, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode, and the conference is being recorded. After the presentation, there will be a Q&A session. (Operator Instructions). The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Mrs. Karin Selfors, Head of Investor Relations, accompanied by Mr. Patrick de Maeseneire , CEO of the Group, and Mr. Dominik de Daniel, CFO of the Group. Please go ahead, ladies and gentlemen.

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

Good morning and welcome to Adecco's Q4 and full year 2011 results conference call. Patrick and Dominik will go through the presentation today, followed by a Q&A session. Before we start, though, as always please have a look at the forward-looking statement in the presentation.

Just a quick update on the agenda. We will start with the operational overview, followed by Dominik's outline on the financial review, after which Patrick will go through the strategy and the outlook for our business, before we open the line for your questions.

With that, Patrick, I hand over to you.

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

Thank you, Karin. Good morning, ladies and gentlemen. Welcome.

First a few remarks on the full year 2011 results. For the second consecutive year, the Adecco Group achieved double-digit revenue growth. General Staffing continued to lead the growth. Especially the Industrial business developed strongly, up 13% in constant currency. Geographically, we had strong double-digit growth in Germany and Austria, Italy and in the emerging markets. Also in France and North America, revenues organically increased by 10% and 8% respectively.

Unemployment rates in almost all major countries remained at high levels and limited our scope to increase prices. The gross margin was also negatively impacted by the business mix. Nevertheless, thanks to our tight discipline and tight cost control, we had solid EBITA growth of 14% organically.

Thanks to the good results achieved, the Board of Directors proposes a dividend of CHF1.80 per share; this for the year 2011. This is an increase of 64% compared to the dividend paid in 2010, and equivalent to a payout ratio of 45% of adjusted net income. Given Adecco's solid financial position and strong cash flow generation, it was decided to increase the dividend payout range to 40% to 50% of adjusted net income for 2011, and we see this as a sustainable range going forward.

I now focus on the highlights for the fourth quarter of 2011. Revenues increased 3% to EUR5 billion. Germany and Austria again grew strongly with revenues up 14%. In our largest markets, France and North America, revenues were flat year on year. Japan and the UK performed better than the market.

The Q4 gross margin was 17.9%, up 70 basis points sequentially. On a year-on-year comparison, gross margin remained flat. Clearly, our tight discipline and our efforts to compensate for the reduced subsidies in France paid off.

Costs continued to be very well controlled. Sequentially, SG&A was flat on an organic basis, and excluding integration costs.

EBITA amounted to EUR229 million, and the EBITA margin in the quarter under review was 4.4%, when excluding integration costs.

Year-on-year revenue growth continued to soften during Q4 2011. In January 2012, revenues were down 1% year on year organically and adjusted for business days.

Let me now go through the organic revenue development by region. In North America, revenues were flat in Q4 2011, compared to Q4 2010. General Staffing grew by 2%, while Professional Staffing revenues declined by 2%.

In Europe, revenues in Q4 were up 2%. As mentioned before, Germany and Austria again grew double digit and we clearly outperformed the market. In France, revenues were flat year on year; a touch behind the market, but with leading profitability. Benelux was in line with the market. Italy slowed to 4% growth. Nordics were down year on year, as were revenues in Iberia, where the difficult economic environment is taking its toll. In the UK and Ireland, revenues were up in Q4, driven by new client wins.

Rest of World, including emerging markets, was up 11%. In Japan, revenues increased by 5%. In Australia and New Zealand, revenues were up 4%. Emerging markets continued to deliver very solid revenue growth of 21%, driven mainly by South America and India.

Let's go through our main markets, now.

In our largest market, France, revenues were flat, year on year, at EUR1.5 billion. Industrial Staffing revenues were flat, slowing from the 7% growth we had in Q3, while Professional staffing continued to grow double digit.

By Industry we still had growth in construction, manufacturing and automotive. On the other hand, demand was weaker in logistics and retail. The development in perm business remains solid. Perm revenues increased by 22% in the fourth quarter.

We continue to have leading profitability, as said. The EBITA margin was up 40 basis points to 4.3%.

In terms of the recovery of the French payroll tax subsidy cuts, we did better than our initial expectations. For the full year 2011 we recovered around 90% of the negative impact. The remaining negative impact on the French gross margin was less than 10 basis points for the full year and negligible for the Group.

Revenue trends continued to soften during Q4, and this also continued into 2012. In January revenues were down 9%, adjusted for trading days.

In order to further strengthen our position in France and to ensure sustainable profitability, we informed and consulted the French workers councils today on our plans to combine the networks of Adecco and Adia under the single brand of Adecco.

This move will allow us to further optimize the cost base through the planned reduction of over 500 FTEs. We will further consolidate the branch footprint and work on the shared service center concept. We plan to invest EUR45 million, the majority of which will be incurred in the second half of this year.

In North America, revenues were EUR917 million, unchanged year on year in constant currency. Demand was good in automotive, logistics and transportation, and also from the technology sector. This was offset mainly by financial services.

In General Staffing, revenues were up 2% in constant currency.

Professional staffing revenues were down year on year by 2%, still held back by the IT segment. Engineering & Technical was down 1% compared with a very strong Q4 2010 when revenues were up 36% organically. Finance & Legal and Medical & Science continued to report positive growth. Evidently, revenue developments in the IT staffing business continued to be short of expectations, but the profitability remains strong. The perm business developed well and was up 14% in constant currency in Q4.

The EBITA margin was 5.2%, up 90 basis points year on year.

Revenues were fairly stable in the fourth quarter of 2011. In January, revenues were up 2%, adjusted for trading days.

Revenues in the UK and Ireland increased by 13% in constant currency, mainly driven by new client wins. In the quarter under review perm revenues were up 5% in constant currency year on year. The EBITA margin was 1.2%, up 10 basis points versus Q4 2010.

In Japan, revenues were up 5% in constant currency to EUR374 million. Demand was still driven by the outsourcing contracts. With an EBITA margin of 5.6% we again achieved good profitability in Japan.

At the beginning of January this year we acquired VSN, a leading provider of professional staffing services in Japan. With this acquisition we doubled our exposure to professional staffing in Japan to around 18% of total revenues, and further strengthened our position in this attractive structural growth market. Results of VSN will be included as of January 2012.

As mentioned earlier, revenue growth in Germany and Austria was clearly ahead of the market. Revenues grew 14%, or 17% when adjusted for the fewer working days in Q4. Main drivers by industry were again automotive and manufacturing. General Staffing grew 13% and Professional Staffing was 15% in Q4 2011. The EBITA margin was 5.6%.

As anticipated, we had two negative effects this quarter; fewer billable working days compared to Q4 2010, and salary increases for our associates effective as of November 2011, in accordance with the collective wage agreement. By Q1 2012 the impact of the salary increases will have been passed on, hence they'll no longer have a negative impact on our results.

In January revenues were up 14%, adjusted for trading days, despite a very tough comparison base.

Finally, we turn to Adecco's development by business line on a constant currency basis.

In Q4 2011 revenues in our General Staffing business were up 3%. Industrial business was up 2% in Q4. Growth was strongest in Germany and Austria where revenues were up 15% year on year. In France, revenues were flat, while growth in Italy slowed to 4%. In North America, revenues were down 6% in the quarter under review.

The Office business grew 5% this quarter. In Japan, revenues were up also 5%. North America again performed very well with revenues increasing by 12%. On the other hand, revenues in the UK and Ireland were down 2%, in the Nordics down 9%, and in France revenues decreased 8% year on year.

Revenues in Professional Staffing increased by 4% in Q4. Growth was strongest in Germany and Austria, France, and in the UK and Ireland. The three regions all achieved double-digit revenue growth. In North America, revenues declined by 2%, as mentioned earlier, still held back by the IT sectors.

Our Solutions business increased by 25% in constant currency.

And, with this, 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, and also welcome from my side.

I will start with the overview of the P&L. In Q4 2011 we had revenues of EUR5.2 billion, up 4% in constant currency, and up 3% organically.

The gross margin was 17.9% in Q4 2011; flat on a reported basis, or about 30 basis points organically compared to the prior year. Sequentially the gross margin improved 70 basis points on a reported, or 50 basis points on an organic basis.

SG&A was up 4% in constant currency compared to prior year. The quarter under review includes EUR12 million integration costs related to DBM. Organically, and excluding integration costs, SG&A was up 1% year on year. Sequentially the cost base remained flat on an organic basis and before integration costs.

The Group EBITA was EUR217 million. The EBITA margin was 4.2% this quarter. Excluding integration costs the EBITA margin reached 4.4%.

Net income in the quarter under review was EUR133 million.

I discuss the gross margin now, and for this please first look at the upper part of the slide.

The Group's gross margin was 17.9% in Q4 2011, flat year on year. Temporary staffing had a negative impact of 40 basis points on the Group's gross margin in Q4 2011. Approx half of this can be explained by Germany and Sweden, where we have the temps on our books and less working days in Q4 2011, negatively impacted the temp gross margin.

Perm positively contributed to the Group's gross margin with plus 10 basis points in Q4. Our perm revenues were up 7% in constant currency in the quarter under review, driven by North America, France and the emerging markets.

The outplacement business and the other activities had a neutral impact on the Group's gross margin in Q4 2011. DBM added 30 basis points to the Group's gross margin this quarter.

Now looking to the lower part of the slide, you can see the sequential temp margin development in 2011. The Q4 temp margin was again up compared to Q3 temp margin, mainly driven by France, where we were successful in passing on the negative impact of the subsidy cuts through higher prices. The net change of minus 40 basis points for the fiscal year 2011 is largely a reflection of the business mix.

Now let me discuss our cost base developments in the fourth quarter of 2011. We continued to manage our cost base very tightly. Sequentially, our cost base was flat on an organic basis and excluding integration costs related to DBM. Year on year, SG&A increased by 4% in constant currency and organically was up 1% compared to Q4 2010. On an organic basis FTEs were up 3% year on year, mainly due to hirings in emerging markets. Sequentially, and on an organic basis, FTEs were unchanged.

Note that our Q4 2011 results include EUR12 million integration cost related to DBM; EUR4 million higher than initially targeted as we have identified additional synergies. The integration process of DBM is going very well and we expect the initially targeted synergies of EUR10 million to be exceeded.

Having gained a better insight of the DBM organization enabled us to identify more cost savings, mainly related to additional branch network optimization potential. We now target a total of EUR20 million synergies and expect those to be fully realized by the end of 2012. For Q1 2012 we expect integration costs related to DBM to amount to approximately EUR3 million. Recall that in Q4 2010 also included integration cost of EUR12 million but related to Spring and MPS.

Going forward, we continue to manage the cost base very tightly and seek optimization potential whenever possible. Besides the structural changes and related investments of EUR45 million in France, which will mainly be incurred in the second half of this year, we expect additional costs of EUR10 million in the first half of 2012 in order to further optimize the cost base also in other European countries.

SG&A for the Group in the first quarter of 2012 is expected to remain approx in line with Q4 2011 on an organic basis and before integration and one-off costs.

Moving on to the balance sheet. At the end of the fourth quarter we had cash and short-term investments of EUR534 million. DSO was 55 days in 2011; up one day compared to the prior year.

Goodwill and intangible assets amounted to EUR4 billion at the end of December 2011. Compared to yearend 2010, goodwill and intangible assets increased by EUR197 million, primarily a result of the acquisition of DBM.

Adecco's shareholders' equity was EUR3.8 billion at the end of December 2011.

Turning to the cash flow statement. The operating cash flow generated in 2011 amounted to EUR524 million, compared to EUR455 million in the prior year. This is an increase of 15%. Especially in the most recent quarter we had a strong increase of the operating cash flow.

Cash used in investing activities was impacted by the purchase price consideration for DBM. The Group invested EUR148 million net of cash acquired for DBM. In addition, CapEx was EUR109 million in 2011. Cash used in financing activities was EUR224 million.

During 2011 we paid dividends of EUR149 million and bought back treasury shares for EUR178 million. This was partly offset by the net inflows of EUR107 million related to the net increase of short- and long-term debt.

Net debt at the end of December 2011 was EUR892 million, compared to EUR751 million at the year 2010.

Now let me give you an update on our net debt on slide 20. As per the end of December 2011 we had short- and long-term debt of EUR1.4 billion, and cash and short-term investments of EUR534 million. This resulted in EUR892 million of net debt at the end of December 2011.

In February 2012 we placed a four-year CHF350 million bond with a coupon of 2.1% to 5%, taking advantage of favorable financing conditions. The proceeds are for general covenant purposes. Our balance sheet today is very healthy and we have no significant refinancing needs in the coming years.

For the full year 2011 our financial guidance is as follows.

CapEx for the year 2012 is expected to be around EUR110 million. Interest expenses, excluding interest income, are expected to be around EUR80 million for 2012. Our corporate costs for 2012 are expected to be approx EUR90 million. Amortization of intangible assets is expected at EUR50 million for 2012. The underlying tax rate for Q1 2012 is expected to be around 32%.

With this, I hand back to Patrick.

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

Thank you, Dominik. I would like to finish with the outlook for our business.

Year-on-year revenue growth continued to soften during Q4 2011. In January, our revenues were down 1% compared to the prior year on an organic basis and adjusted for trading days.

Within Europe, revenue growth in Germany and Austria continue to be strong, still up double digits, but revenue growth in most other European countries slowed further going into the new year. In North America revenues were up slightly year on year in January 2012. In the emerging markets revenue growth continued to be very healthy.

Today the Adecco Group is well positioned for the future. In an environment of economic uncertainty we will continue to build on our strengths. We have a leading global position and diverse service offering. We will continue to take advantage of growth opportunities with a strong focus on disciplined pricing.

Cost control will remain key to optimize profitability and to create sustainable value. As Dominik said, SG&A for the Group in Q1 2012 is expected to remain approx line with Q4 2011; this on an organic basis and before integration and one-off costs.

We are committed to our strategic priorities and we have the right offering to achieve our EBITA margin target of above 5.5% mid term.

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

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. (Operator Instructions). Paul Sullivan, Barclays Capital.

Paul Sullivan - *Barclays Capital - Analyst*

Just a couple of questions. Firstly, on the French restructuring, is there any revenue impact that we should expect from that as it starts to kick through as we go through the second half and into next year?

And just following on from that, are you now largely through the renegotiation of contracts? And when would you start to envisage French revenue performance playing catch-up with that of the market? So that's the first question on France.

And then just secondly, related -- for the US, are you happy that the headcount investment that you've made over the last six months will start delivering from this quarter? It doesn't look like it's starting to kick through in January. Again, when do you think you'll start to play catch-up to the market in the US? Okay, thanks.

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

On the first question on France, we have projected the revenue impact of the consolidation of our two networks to be minor.

Our networks are really having a similar profile and, at the same time, we will take advantage of consolidating the network; also to segment it and to have it more focused on small and medium accounts so that we really separate large account branches from on-site branches, from small and medium account branches.

And with this segmentation we are confident that the revenue impact will be minor. We have done detailed analysis of 1,600 accounts which were overlapping and we estimate this really as a very minor impact.

If you talk about how we are doing in line with the market, it's true that in the fourth quarter we are somewhat behind the market, but I do hope that you appreciate our leading profitability in the French market and this is what we clearly said during our Q3 call; that we would continue to focus on pass-on price increases into the French market or recuperate the lesser subsidies we're having on lower wages. And we were saying this and we were also doing it, and that you clearly can see from our profitability in the French market.

And going forward this will be our attitude. You know that the gross margins are not that high in the French market and so, as the leading operator in the French market, we should give the example and we will continue to push for more profitability and, if needed, walk away from customers that are CVA or EVA negative.

In the US, then, are we happy at this moment with the IT development, because I think your question is more specific about IT. We did, indeed, recruit more than 100 people in the course of Q3 for our IT business, but I clearly said in the Q3 call that we had to wait for the impact of these people, that it takes at least six months to get them productive and that we wouldn't have any positive effect in Q4. And that's, unfortunately, what we are seeing.

I'm also disappointed by this development, but we expected it and so, in that respect, I should not be disappointed but at least I would have hoped to have a somewhat better result.

But what we are seeing now in January is that it is somewhat better. There is still a decline in January, like you were saying in your question, but the decline is less than the average we had in Q4. So, in that respect, it's going somewhat better.

Also I would like to add here that also here our focus stays on profitability; that our return on sales in the fourth quarter, despite being down 8% in the IT segment, is still close to 7% so that we are not sacrificing here profitability for the sake of volume, which we will not do also in the future.

So our aim is now on broadening our customer base. We are still dependent upon a few number of customers, especially in the financial services. It takes time to broaden that customer base, but we will close the gap in the course of Q2. Is that okay?

Paul Sullivan - *Barclays Capital - Analyst*

Yes, that's very clear. Thank you very much.

Operator

Michael Foeth, Bank Vontobel.

Michael Foeth - *Bank Vontobel - Analyst*

A further question on France. Could you give us somehow an idea of these EUR45 million investments that you will make? How do they split between ending contracts, severance costs and closing down branches? Just so that we get a bit of a feeling for that. And what kind of savings do you expect in fiscal '13 from that?

And the second question would be regarding the corporate costs. Obviously they go up in 2012 by some 5% to 10%. If you could explain why that increase?

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

So first of all to France and the EUR45 million, of course this is a split of severance but it's also -- you have to see this as for a net reduction. If we implement the shared service center concept, that means we have also to take out people locally in branches and higher people than at the shared service center. So this is a net reduction. Of course the majority is severance, but there are also other costs like write outs and real estate and so on, but we will not split this into a detail.

And the majority of the cost will come in the second half of 2012, so that means from a savings point of view they come in afterwards. And from the savings, I would say the rule of thumb in France is that the payback is a little bit more than one year.

Then your second question regarding the corporate costs, they are a little bit higher than guided then in 2011. There you have just to take into account that our corporate headquarters are in Switzerland and therefore a big piece of our corporate costs are in Swiss francs and we know how the Swiss franc and the euro developed, so, of course, it has some impact in this respect.

Michael Foeth - *Bank Vontobel - Analyst*

Okay. Thank you.

Operator

Laurent Brunelle, Exane BNP Paribas.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

A follow up on the French market. Can you just remind me the growth rate in Jan? Are you down 9%?

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

That's absolutely right, yes.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay, so you continue to underperform the market but you do expect to continue that in 2012 as you will still focus on profitability, right?

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

If we look why we -- why do we underperform the market recently? First of all we have to see we are highly exposed to large accounts, and large accounts we -- are rather dollar cyclical and they're slowing now a little bit more down.

And, as you all know, (inaudible) said officially that they have reduced temps and we had (inaudible)'s highest market share.

And, of course, like we said in Q3, if we, in the renegotiation, see that one of the other clients is not accepting our price increases and the EBITA for this client is not appropriate, we are also willing to walk away.

So, again, for us it's really about the EVA in this country, like in all the other countries and, therefore, we have, I would say, a stellar performance on our profitability in Q4. And we continue in this way like before. If the social tax subsidy comes, this is already priced through, of course. It's priced through because we covered more than 90%.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Yes, that's clear. And have you see any new evidence of (inaudible) contraction in demand for temp workers, especially from car makers in France? Is it something that has changed recently or is it very similar?

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

If we look to car makers in France it is the case, of course, because temps (inaudible) from (inaudible) like you said officially but our automotive business was still growing in Q4. So other clients from the automotive have still done very well.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay, clear. And second, can you maybe give us more flavor regarding your Japan developments? And can you comment on about the synergies and the upside coming from VSN please?

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

If we look to Japan, Japan had a good quarter, very good profitability regaining market share in the recent quarters. It's doing very well. If we go into next year, some of our outsourcing contracts, they are done, they are ending, so therefore it -- the growth rate will may be not anywhere as high.

But, overall, regarding the integration of VSN, VSN is a professional staffing, focusing on engineering. So the only thing which we integrate is the back office and this is fully on track. We said they are limited to (inaudible) EUR2 million, so by this only for the back office because our Adecco Japanese this business has no engineering activity so far, so there is no integration from this point of view.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay, clear. Thank you.

Operator

Jaime Brandwood, UBS.

Jaime Brandwood - *UBS - Analyst*

Just a few questions, if I may. Firstly, just when we were talking to Randstad at their quarterly results they gave us some indication as to how their gross margin was trending in January. I wondered if you might be able to do the same, to comment on your gross margin trends so far this year.

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

If you -- January is the first month of the year and I think the picture is not a good indicator but I think what is more interesting, if you look to the temp margin -- if you look to the temp margin in Q4 and, as we always said, we will have the major positive impact in Q4 from the tax subsidy cut in Q4.

If you take the seasonal impact, which happens in Q4 out, yes, that's a kind of underlying temp margin, the temp margin in Q4 is definitely higher than the temp margin in Q1 2011. So I think with this you have a very indication what it means for beginning of 2012.

Jaime Brandwood - *UBS - Analyst*

Okay, no that's a very good indication, thanks. And just on the perm activities, 7% constant currency growth in Q4, which I guess is purely organic. That 7% growth in perm in Q4, how's that looking so far in January the overall perm growth?

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

Similar.

Jaime Brandwood - *UBS - Analyst*

So no slowdown in perm so far?

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

Yes, it's a similar growth in January.

Jaime Brandwood - *UBS - Analyst*

Okay and then on the cost cuts, the EUR10 million in H1. I guess you've also got the EUR45 million in France, which is specific to that country, but can you give us a sense of the EUR10 million in terms of the main countries that you're cutting costs in?

And then also I guess to put that into context with Manpower and Randstad, I guess it sounds like a relatively small number, even though I would have thought you've got less spare capacity than Manpower does in particular.

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

The EUR10 million is for countries like, for example, Iberia, where you clearly see the sales development declining faster. It will also be applied in Holland and specifically in Holland on the Professional Staffing side, where we have the people on the bench. And we will now reduce this with this kind of amount.

And then the rest of the EUR10 million is really for adjustments here and there. As you know we want to protect our profitability and keep our costs in line with what's the reality of the markets. So in those markets where we see a decline, we'll adapt the cost base.

Jaime Brandwood - *UBS - Analyst*

Okay, but nothing --

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

It's really Iberia and Holland.

Jaime Brandwood - *UBS - Analyst*

Nothing in Italy, for example?

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

In Italy the -- we indeed had a decline. You see that declines in the Q3 from -- in Q3 we still had 19% and now we have 4%. And it's softening further, but at this moment we don't see a reason to adapt our cost base in Italy.

Jaime Brandwood - *UBS - Analyst*

Okay. And last question. You saw this pretty impressive acceleration in the UK in Q4, and it seems to be the IT business that's driving that. I guess it worries me a little bit, remembering from whenever it was, three or four years ago, when you also won a ton of these high-volume IT contracts and then a few years later decided that maybe actually these contracts weren't particularly profitable, as to what the difference is this time around.

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

You're absolutely right, Jaime. Then, again, you have to look at our profitability compared to what is happening in that market. We can absolutely not be happy with the 1.2%. But then again, even with 1.2%, we have leading profitability in that market. So that's one remark.

On the second remark, I -- it's indeed a number of short-term contracts that we have had in the fourth quarter, but also a number of large account wins that required start-up costs, and those are part of the results.

Perm also slowed down in the UK market, because we still had the growth of 15% in Q3 and now it slowed down to 5% in Q4. So that's certainly one of the reasons for the reduced profitability, if I may say so. And we had restructuring costs of EUR2 million. All in all you will see a much better profitability in the first quarter.

Jaime Brandwood - *UBS - Analyst*

Thanks a lot. Thank you.

Operator

Kean Marden, Jefferies.

Kean Marden - *Jefferies - Analyst*

Well done on the French gross margin in the fourth quarter. I thought I'd run through three quick ones, if I could.

First of all, should we be assuming any cost reduction benefit at all in fiscal '12 from some of the restructuring measures that you've announced today?

Secondly, I'm just wondering why your interest payable guidance is probably just a little bit higher than anticipated for fiscal '12.

And, as an adjunct to that, regarding balance sheets, whether the new dividend policy has any implications for your M&A activity going forwards?

And then finally, I'm just wondering what your thoughts are regarding potential liberalization of the Italian labor market, and particularly whether you think Article 18 will get reformed?

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

Okay, I will take your third and your fourth question on the dividend, and on the reforms of labor markets, and Dominik will then take your question on the cost reduction benefits in 2012 and the interest payables.

On the dividend policy, will it have an effect on our view on M&A? No, but you know our view on M&A is the following; that we said after MPS and Spring that we wouldn't do big acquisitions, at least for a period of two years. We are extending that because we are feeling comfortable with what we are having as a Professional Staffing portfolio; the split we're having between Professional Staffing and General Staffing in those markets.

The most important markets for Professional Staffing are the US and UK, and Germany and Japan, and in all of those markets we feel comfortable. You can always expect some smaller acquisitions from us to complement our portfolio, but big acquisitions you should not expect from us.

But this has not changed with our dividend policy. This is just the attitude that we are having now since more than two years, and that will continue.

Our dividend policy is our way to return money to the shareholders. We are at the limit of the share buyback with the 10% and -- so that's why we increased, because of our strong balance sheet, our good results and our strong cash generation, that we increased our payout ratio now also for the future to 40% to 50%.

Apart from the -- on your point on the labor market reforms, this is for the mid term positive news for us, in Italy and in Spain, where you see now that flexibility is introduced without restrictions. This is also to comply with the EU directive that is in place since the end of last year. And we're seeing these developments more and more countries. Of course, the member countries have to respect the EU directive.

And in the current economical environment, governments are now taking measures to introduce more flexibility for the employers. But also to push temping, because they know that temping is the step up for people to get out of the unemployment situation and to get them a fixed job or a better view on a fixed job afterwards. So this is what's going on.

I wouldn't expect too much of it for the short term as an effect on our numbers, but mid term this is, of course, a positive development if you see that the penetration rate in Italy is still below 1% and that in deregulated markets the penetration rate is above 3%. This deregulation is, of course, very welcome for our industry and for ourselves.

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

And regarding the benefit of restructuring costs and the phasing of it, if you (inaudible) have a look to the EUR10 million for the, let's say, other European countries from outside (inaudible), we spend it in the first half of this year, of course in the second half then you should see the benefits of this. And in these countries [with charges] the rule of thumb is less than one year to pay it back.

THOMSON REUTERS

And if we look to the France, the big majority will come in the year after, end of 2013, as we spend the big majority in the second half. Nonetheless, there will be also some spending -- a little bit of spending in Q2, or maybe even in Q1 a little bit. So some savings will kick in, but the real majority will come in 2013.

Regarding your question of the guidance for interest expenses, we're not looking, as we said, always we're not looking for large acquisitions, but we are always open for bolt-on things when it makes sense, and when it's helping our direction, like, for example, DBM, which we bought in late summer last year, which is doing very well, like VSM, which we announced in January, which is doing very well.

So we used the opportunity in February to go to the Swiss bond market and raise CHF350 million for 2.1% to 5%. And I don't know whether you have this interest expenses already in your estimate, if you take this into account you should come up roughly with this number.

Kean Marden - *Jefferies - Analyst*

Yes, that's great. Thanks, Dominik, it's very clear. Thanks.

Operator

Marc Zwartsenburg, ING.

Marc Zwartsenburg - *ING - Analyst*

First of all, Dominik, to clear up fully on the EUR45 million for France, you mentioned a little bit more than a year kickback and some will kick in this year, the rest in 2013. But is it also on the amount of cost saving that the EUR45 million investment will also lead to EUR45 million of savings? Or should we read that differently?

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

I mean -- if I say that the payback is a little bit more than one year, then I mean the full investment, of course. We should have the saving, yes.

Marc Zwartsenburg - *ING - Analyst*

Okay. And then on your gross margin, your statement was 50% of the temp margin decline came from working days. But you also had this [COA] impact in Germany. How much impact was that on your gross margin?

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

There is an impact by the (inaudible), it was only end of November, but October was still (inaudible) and it does not mean that we have not passed the remaining thing on. This was really not the most important thing; this was part of it. But we are very confident because we -- for a lot of clients we passed it off for January 1, so you will see a pretty good operating margin in Germany in Q1 again.

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

Is that okay Marc? Hello? Marc?

Operator

Andrew Grobler, Credit Suisse.

Andrew Grobler - *Credit Suisse - Analyst*

Just a couple of questions left from me. In terms of Italy, unsurprisingly that's slowed into Q4. What's the progress been into January of this year?

Secondly, just a clarification on the UK. The strong growth was driven by contract wins. You mentioned some of those are short term, some of those are longer term. What should we expect coming into this year?

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

On your second question on the UK, Andrew, the -- we will still, of course, because some of these contract wins are also for a longer period of time, so you will still see a good single-digit growth in Q1, in the UK, but not the growth that you've seen in Q4.

Andrew Grobler - *Credit Suisse - Analyst*

Okay.

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

Regarding Italy, we have the growth slowdown, from plus 19% to plus 4%, from Q3 to Q4. And then a little bit further down into January.

The overall situation in Italy is definitely the economic environment, because if you look to Europe, for sure, Italy is in a clear recession, and we see now the impact there from the top line.

Andrew Grobler - *Credit Suisse - Analyst*

Okay, thanks. And just one further one on emerging markets margins, which, I think, Q4, those were the best margins you had in Q4 in the emerging market business for many years. What was the main driver of that?

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

If you look to the emerging markets, I think we have done -- the last year there was a lot of changes in Latin America, both in terms of management changes and they're really working now out.

We developed a lot of perm business, and perm is doing very well, in these countries. And in countries like Eastern Europe, our investment from the prior year, they're really getting now the productivity in. So, therefore, the margins have done quite well, into Q4.

Andrew Grobler - *Credit Suisse - Analyst*

Okay. And so into 2012 it may not be sustained at that rate, but should we expect margins to be notably up, year on year, '12 over '11?

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

In general they should be. They should be up in emerging markets, but we will also continue to invest -- as long as in emerging markets, the trend continuing in the right way, because there is a lot of structural potential. It's not now about to basically optimize the last cent. As long as the trends are the right way, we will continue to invest.

Andrew Grobler - *Credit Suisse - Analyst*

Okay. Thank you very much.

Operator

Tom Sykes, Deutsche Bank.

Tom Sykes - *Deutsche Bank Research - Analyst*

Sorry, just some more questions on France, to begin with. Could you just run me through some of the moving parts? So on the sort of minus 9% that you're talking about in January, in France, presumably your gross profit is, since you're talking about price increases and the benefit in gross margins, going up, is not down by a much as 9%. Is it still negative? Or are you saying that's about flat at the moment, in France?

And I wondered if you could maybe just quantify the -- my understanding is that you get the subsidy payment in Q4 this year. So I was just wondering whether you could quantify that subsidy payment benefit in Q4.

And perhaps then also, what the phasing of your price increases has been over 2011. So when we can model that you start annualizing the bulk of the price increases in France, please.

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

First of all, January, I give you the number, but January is really just the first month, was positive, not negative in January. Because again you see the strong pricing behind it, that this was able to compensate.

If we look now to this kind of social tax rebate cuts from last year, you have to consider that we had, as we said when this started one year ago, the negative impact, especially in the first half and then in Q4, we had the very, let's say, rather positive impact.

If we would say now, we take the full year together and just make an average per quarter, the kind of seasonal impact, which happens now every year in Q4, always in Q4 with the new system, we get more rebate that is around, I would say, in the French gross margin, 100 basis points, in Q4 which positively impacted the Q4 gross margin, from a seasonal point of view.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay. And so just -- are you envisaging taking out costs in France, ahead of the reorganization that you intend to do in the second half?

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

Our product is to sell flexibility, so we always look to be flexible.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay, and then --

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

But (inaudible) reorganization, because the reorganization is really driven to bring the two brand names, structurally, together.

Tom Sykes - *Deutsche Bank Research - Analyst*

Yes. And will there be any -- do you envisage there being any competition issues in France, because presumably you're competing against each other now, and you won't be, going forward? Is there, at all, any competition issues from you combining those?

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

No. There isn't. There are not. This has been clearly checked. There are no issues whatsoever.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay. And then just on the tax rate, I believe you said 32%, is that right?

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

For Q1, yes.

Tom Sykes - *Deutsche Bank Research - Analyst*

That's for Q1, okay. And what -- do -- can you look any further out than that for full year '12 at all?

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

You know we always guide for the next quarter the underlying tax rate, but normally, if you take the prediction for the full year, then you should be very close.

Tom Sykes - *Deutsche Bank Research - Analyst*

Right, okay. And is the increase -- is that being driven by France, because if --?

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

Let's say that the point is that the tax rate in 2011 was lower because we had a couple of items which positively impacted this [great] events, which positively impacted the tax rate. So if we would take all these items out, the tax rate would be stable, maybe 1% out.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay. And sorry, the -- my final question is just on your Professional gross profit. You're obviously saying Professional organic growth is about 4%. Would you say your Professional gross profit growth is positive?

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

That's the case.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay. And sorry, in line with -- that includes perm as well, does it? But that's sort of in line with the increase in sales, at the moment?

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

The perm part of Professional is, of course, included, yes.

Tom Sykes - *Deutsche Bank Research - Analyst*

Right, okay. All right. Thanks very much.

Operator

Alain Oberhuber, MainFirst.

Alain Oberhuber - *MainFirst - Analyst*

I have two questions. The first is about the gross margin discussion, and price pressure. Do I understand it there correctly, as we have also heard from other players in the market that there is currently no big price pressure going on, in particular in the European market?

And the second thing is about the gross margin overall. So what do you say to this, that this decline of 40 basis points in temp was mainly because of Germany and Sweden, and should normalize now, in 2012?

So given that we have this 20 basis points improvement, plus then no price pressure, could we assume that the full-year gross margins could be up by 20 to even 30 basis points?

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

Alain, I will take your first question, and, simply said, indeed there is no big pressure on pricing. We all have our targets out there, and the behavior is very rational. So I can only confirm that the behavior is good, and that there is no pressure on pricing. We are the leader in the market, and we are setting the stage there, I think.

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

We will not guide our forecast expectation for the full year temp margin. What I can repeat is the following, that if you look to our Q4 gross margin, which was partly positive influenced by the better seasonality in terms of social subsidy cuts, if we take the seasonal positive thing out, even then our temp gross margin in Q4 is clearly higher than in Q1.

So I think there is a good run rate, and, as you know, we had, of course, in 2011, with the exception of the last quarter, we had always the situation that General Staffing was clearly performing much stronger than Professional Staffing.

But from a cyclical point of view, especially if you look then to European countries, France is the best example, we had in January, as we said, we had 9% (inaudible) France. The biggest part of France is General Staffing, but our Professional Staffing is still growing double digit.

So the mix will help, and so on, but it will not guide for the full year what would be the temp margin.

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

But just to clarify, Dominik is saying that the Q4 temp margin was clearly higher than Q1 '11, right?

Alain Oberhuber - *MainFirst - Analyst*

Great. Fully understood. Thank you very much.

Operator

Toby Reeks, Merrill Lynch.

Toby Reeks - *BofA Merrill Lynch - Analyst*

Three, if I can. The first is on France. Just to go back to the restructuring costs of EUR45 million. 500 FTEs, on that sort of a cost, I know it's not all redundancy-type payments, but you said the majority was. That's quite -- it seems that's quite a low return for just for 500 FTEs. Can you talk a little bit about where the rest of the cost -- where the rest of that restructuring cost is being allocated?

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

First of all you have to see it is -- we said more than 500. So this is not only one or two months (inaudible) more than 500.

The second point is this is a net number, and, as I said before, if we implement the shared service center concept, that means you have to lay off people in branches, but you have to rehire, of course not the same amount, much less, in the shared service centers that you have just to take into account, which, of course, has, then, the benefit in all the years to come because you take structurally cost out.

Furthermore, we have to consider that we also close a quite significant amount of branches, because the combining the two brand names. So there's also real estate cost involved.

So, overall, as I said before, the payback is a little bit more than one year on this whole amount. But it will help us structurally in terms of profitability for more than one year because we will really make structural change. If we have a much leaner organization, we have even more optimized branch footprint and there's a shared service center concept, like we do this in all the other countries, we have structurally a better cost base and even a more flexible one.

Toby Reeks - *BofA Merrill Lynch - Analyst*

And can you give us an idea of what sort of proportion of branches you'll be closing in France?

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

More than 150.

Toby Reeks - *BofA Merrill Lynch - Analyst*

Okay. And that's out of how many?

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

In General Staffing we have actually a little over 1,000 branches.

Toby Reeks - *BofA Merrill Lynch - Analyst*

Okay. Thank you very much. And then just on the shared service, I'm assuming Manpower and Randstad -- do you know this? Are they -- have they done the same thing already? Or do you think you guys are leading in that field?

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

You have ask them what they are doing. I don't know what they are doing in every single country. I can only tell you that we used the opportunity in the last downturn to implement it in the majority of the market. And in France we were at this time, for different reason, not able to do it and we do this now.

Toby Reeks - *BofA Merrill Lynch - Analyst*

And can you -- are there lots more opportunities in other of your other larger markets? Or have you already done it there?

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

In all of other big markets we have a shared service center concept. France was the remaining market where we are not able to do it in the last downturn.

Toby Reeks - *BofA Merrill Lynch - Analyst*

Okay, fine. And then on DBM, the synergies are EUR20 million. That's a pretty big number relative to -- I think EBITDA was around EUR20 million when you acquired it. And it sounds like the cost savings are principally from branches. Does that mean -- I'm just trying to get my head around how you could make that -- find that level of synergy for that sort of business?

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

The thing is the following, you know when you make an acquisition and you make the diligence, you have not opportunity to visit the branches, look to the thing, so you have to -- you take certain assumptions. And we were coming up with around EUR10 million.

Then, of course, when we looked to the things and we get deeper inside, deeper understanding, we have seen additional potential to bring branches together. And, therefore, we are in the position today to increase the kind of synergy targets.

And this is, of course, underlined by the fact that our restructure integration costs, which we have foreseen when we announced the deal, roughly EUR10 million. It was EUR2 million in Q3 and EUR8 million in Q4. And we are already higher, because we have seen more potential so we close much more branches, basically, last quarter. And, therefore, we are very confident that we achieved the synergies to be honest.

You see that also if you look to the profitability, if you take out the integration costs, how profitable this business is already now, with still 1% organic decline. That's not yet booming this business.

Toby Reeks - *BofA Merrill Lynch - Analyst*

Okay, sure. And then the final question is more a general feeling question. I mean sentiment's obviously dramatically improved since late December and into January. I mean has sentiment with you guys incrementally improved? Obviously it's not going to improve in such a large fashion as we have started the beginning of the year. Do you think it's incrementally better or worse?

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

If we look overall, if you've seen, for example, in North America where we had the flat development in Q4. Now for January we say that we have a 2% growth. You see that clearly the market there for now is holding up. It's not declining. On the other hand, you cannot deny that in Western Europe the eurozone is in a recession since the fourth quarter and that there the market is under pressure.

You see our solid growth rates in Germany. You see also in January, but please don't if you now target out growth rates for the coming months, don't forget that the first quarter of last year was our fastest-growing quarter of the last eight ones, so of the last two years, with an 18% growth, and Q4 2010 was 17%. But last year in Q1 we had 18%. And it was the fastest growth, you do it when -- and 13% and it will ease out. But we are comparing ourselves now with a very high growth last year in the current quarter.

And to give you even more specifics on the German market, we had a growth last year. We, ourselves, had a growth last year of 40%. So you have to compare it with the base. And, because of that base, you will see also the growth in Germany will ease out a bit over the coming months. But, all in all, at this moment, we could say it's holding up pretty well.

Toby Reeks - *BofA Merrill Lynch - Analyst*

Okay. Thanks very much.

Operator

Matthijs Van Leijenhorst, Kepler Capital Markets.

Matthijs Van Leijenhorst - *Kepler Capital Markets - Analyst*

First question is on the UK. If I look at profitability since 2007, compared to the other countries it's never been really profitable. Could you give some guidance? What are you going to do for the future?

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

If you look to the UK I think this is one of the most challenging markets. I think this is the case for the industry, not only for Adecco, because even with this low profitability we have the highest profitability market in our segment (inaudible).

That said, if you look into Q4, as Patrick outlined before, there were also a couple of one-time items that impacted the profitability. Definitely the profitability will increase going forward, but we will never have a high profitability in the UK because it's a very tough market but the profitability will increase.

Matthijs Van Leijenhorst - *Kepler Capital Markets - Analyst*

Okay. Next one on Germany. Could you give some more flavor on -- you're -- apparently you're way ahead of the market. Could you give some more flavor on revenue increase?

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

If we look to the German business, first of all we have to see, we have (inaudible) clearly that Professional Staffing, and Professional Staffing is doing very well. And also in General Staffing we're gaining share. We have -- it's supported also by the automotive business and a, we see that income is like France, Peugeot is reducing. But if you look to the German car manufacturers, especially more the luxury manufacturers, they're still doing very well.

We're becoming clearly now, as Patrick said, to tougher base effects but underlying the demand is good and we have a good exposure there. And I think the team is focusing a lot there on the right things.

Matthijs Van Leijenhorst - *Kepler Capital Markets - Analyst*

Okay. Many thanks.

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

Okay, so this concludes our investors call. I would like to thank you for your attention in our Company and for attending the call. And we hear each other again on May 8 when we announce our Q1 results. And hopefully we see each other sooner. Thank you.

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

Thank you.

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

Thank you.

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.