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ADEN.VX - Q4 & Full Year 2012 Adecco SA Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, good morning. Welcome to the Adecco Q4 results 2012 analysts and investors conference call. I'm [Joya] 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 fourth quarter and full year 2012 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, please have a look, as always, at the forward-looking statements in this presentation.

Let me give you a quick overview of today's agenda. Patrick will present the operational highlights to you, then Dominik reviews the financials, after which Patrick will give you an outlook on our business before we open the lines 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. In my turn, welcome to our Q4 results conference call; first, a few remarks on the full year 2012.

After two years of double-digit revenue growth, 2012 revenues were flat at EUR20.5 billion or declined 4% organically. General Staffing revenues declined 6% organically, whereas Professional Staffing revenues held up well, increasing 1%.

Geographically, we faced diverse trends. Most of Europe was challenging and we had double-digit revenue declines in France, Italy and Iberia. Exceptions were the UK and Ireland, where revenues grew 6% in constant currency. And also, we continue to gain market share in Germany and Austria, where revenues increased 1%.

We achieved solid results in North America, where organic revenue growth picked up throughout the year. Also, the emerging markets continued to grow in double digits.

In Japan, revenues declined by 10% organically, as some of the bigger outsourcing projects were completed in early 2012.

Our gross margin improved strongly in 2012. The gross margin was up 50 basis points to 17.9% or up 30 basis points organically. We maintained strict price discipline, based on our EVA approach, and also profited from a better business and country mix.

Our focus on cost control was strongly maintained. SG&A organically and before restructuring and integration costs was down 1% year on year.

Despite a revenue decline, we were able to protect profitability as we promised. We achieved an EBITA margin of 4%, down only 10 basis points, when excluding restructuring and integration costs.

Our balance sheet remains very healthy and we achieved a strong operating cash flow of EUR579 million, up 10% compared to 2011.

Thanks to our solid financial position and cash--rich balance sheet, the Board of Directors proposes a dividend of CHF1.80 per share for the year 2012, equal to the dividend paid for 2011 and equivalent to a payout ratio of 49% of adjusted net earnings. This is in line with the payout range of 40% to 50% of adjusted net earnings, which we introduced as from 2011.

As well, going forward, the dividend policy is further enhanced. In addition to the payout range of 40% to 50%, the Company is committed to pay at least a stable dividend compared to the previous year, even if the payout range is temporarily exceeded, of course barring seriously adverse economic conditions.

We continue to be very focused on reaching our mid-term EBITA margin target of above 5.5%. Based on the good progression made on our six strategic priorities and more favorable economic conditions expected towards the end of 2013, we are convinced that we will achieve this target in 2015.

Let me now focus on the highlights of the fourth quarter of 2012. Revenues were down 3% at EUR5 billion. Organically, revenues were down 6%.

While revenues in North America developed very well, with 8% organic growth, most of Europe remained challenging. France still had double-digit sales decline. In Italy and Iberia, the year-on-year revenue decline rates eased somewhat.

Germany weakened, although we were still gaining market share. UK and Ireland and Nordics held up reasonably well. Japan was still declining organically, impacted by the high base of last year.

The gross margin in Q4 was down 10 basis points to 17.8%. We were impacted by how the bank holidays fell on working days in Q4. Costs continue to be very well controlled. SG&A was down 3% year on year and down 1% sequentially on an organic basis and before restructuring and integration costs. This resulted in EBITA before restructuring costs of EUR194 million and a margin of 3.9%, down 50 basis points compared to the last year.

In the first two months of Q1 2013, revenues were down 5% on an organic basis and adjusted for trading days.

Let's have a look at the organic revenue development by region now.

In North America, including Lee Hecht Harrison, revenue growth accelerated and was up 7% year on year. Both General and Professional Staffing contributed to the good growth trend. Within Professional Staffing, growth in the IT segment accelerated to 12% in Q4.

Revenues in Europe were down 9% in the fourth quarter. In France, revenues declined 17% year on year. I will come back on France in a bit.

Germany and Austria was down 4% but still ahead of the market. In Benelux we outperformed the market in Belgium but had weaker growth in the Netherlands. In Italy, revenues were down 8% and in Iberia down 10%.

The Nordics still grew as revenues were up 3% and in the UK and Ireland revenues were down only 1% in Q4.

Rest of World, including emerging markets, was down 5%. In Japan, revenues declined by 15%. In Australia and New Zealand, revenues were down 6% and the emerging markets grew 4%, mainly driven by Latin America.

We now go through our main markets. In France, revenues were down, as said, 17% year on year to EUR1.2 billion. From an industry perspective, we saw weakness across the board, but most pronounced in Automotives and Manufacturing. Our Perm revenues were down 29% in Q4. We incurred EUR33 million restructuring costs in the quarter under review. These were related to the combination of the networks of Adecco and Adia under the single brand of Adecco. The EBITA margin before restructuring costs was 2.7% compared to 4.3% EBITA margin in Q4 '11.

The restructuring plan in France is nearly complete. As of year-end 2012, more than 500 FTEs had left the company and the number of branches was around 10% lower year on year. Given the tough economic environment we have taken additional actions in 2012 to adjust our capacity, which resulted in an additional reduction of around 300 FTEs.

In 2013 to further align the cost base to revenue developments, we will incur additional restructuring expenses, mostly in the first half of the year. In recent weeks, since the restructuring is close to completion and the new organization is now in place, we have seen commercial activity picking up.

Revenues year to date, February 2013, were down 15%, adjusted for trading days.

In North America, revenues were up 8% organically to EUR947 million. Demand held up well, especially in technology and logistics. Revenues in General Staffing increased 7% in constant currency and Professional Staffing revenues were up 8% organically. The North American IT Professional Staffing business grew 12% year on year organically, driven by strong growth in the US of 16%.

Revenues developed ahead of the market in Finance and Legal and Engineering and Technical, both up 4% in constant currency. -Medical and Science also had a very robust growth of 21%. Also in Perm, our revenues continued to develop very well, up 12% organically.

Excluding EUR4 million restructuring costs for the consolidation of data centers in North America, the EBITA margin in Q4 '12 was 4.3% compared to 5.2% in Q4 '11. The prior year, however, included a few favorable one-offs.

Year to date, February 2013, revenues were up 4% organically and adjusted for trading days. Please note that if we adjust the Q4 2012 revenue growth in North America for the trading day impact, revenues were also up 4%.

Revenues in the UK and Ireland amounted to EUR490 million, down 1% in constant currency and compared against the strong base in the prior year when revenues increased 13% in constant currency, mainly driven by a few large client wins.

In the quarter under review, Perm revenues were down 25% in constant currency. The EBITA margin was 2.9%, an increase of 170 basis points compared to the EBITA margin of 1.2% in Q4 '11. Revenues in the first two months of 2013 were up 2% in constant currency and adjusted for trading days.

In Germany and Austria revenues declined by 4% organically, still performing better than the market and compared against a strong base last year when revenues still grew 14% year upon year. As expected, the amount from Automotives slowed in Q4. On the other hand, the amount from the Aerospace sector remained solid.

Q4 2012 included EUR5 million restructuring costs to align SG&A with revenue developments. Excluding these costs, the Q4 EBITA margin was at 4.3%. Profitability was impacted by how the bank holidays fell on working days and this will also be the case in the first quarter of 2013.

Year to date, February 2013, revenues were down 5% organically and adjusted for trading days.

In Japan, revenues were down 15% organically to EUR361 million, still impacted by the completion of some of the bigger outsourcing projects earlier in the year. Despite the revenue decline, profitability in Japan continued to be strong. The EBITA margin was 5.5%, down only 10 basis points compared to Q4 '11. VSN added 50 basis points to Japan's EBITA margin in the fourth quarter.

In the first two months of 2013, revenues were down 12% in constant currency and adjusted for trading days. As of Q2 2013, the revenue decline rates should ease.

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

In Q4 2012 revenues in our General Staffing business were down 7%. Industrial business was down 9% in Q4.

In Germany and Austria, revenues were down 6% organically year on year. In France, revenues declined 18%. Italy was down 9%. Revenues in North America were up a solid 8% year on year.

The Office business was down 3% organically this quarter. Revenue growth in North America accelerated to 6% and UK and Ireland was up 7%. Also, Nordics was in positive territory, up 1%. On the other hand, revenues in Japan were down 17%.

Revenues in Professional Staffing were down 1% organically in Q4. North America continued to do very well. Year-on-year revenue growth further accelerated to 8% organically. France, on the other hand, was down 12%; and UK, 5%.

Our Solutions business increased by 4%; revenues at Lee Hecht Harrison were slightly positive. And revenue growth in MSP and VMS continued to be strongly double digit.

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

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

Thank you, Patrick. Good morning, ladies and gentlemen. I will start with the overview of the P&L.

In Q4 2012, we had revenues of EUR5 billion, down 5% in constant currency. Organically, revenues were down 6%. The gross margin was 17.8% in Q4, down 10 basis points year on year, and sequentially.

SG&A was up 2% in constant currency compared to prior year. SG&A was 3% lower, year on year, on organic basis, and excluding restructuring and integration costs.

Sequentially, the cost base was down 1% on an organic basis, and then excluding restructuring costs.

EBITA was EUR148 million; excluding restructuring costs, EBITA was EUR194 million. The margin was 2.9% in Q4, 2012, down 50 basis points compared to the EBITA margin, excluding integration costs, of 4.4% in Q4, 2011.

Net income in the quarter under review was EUR35 million; and effective tax rate was 70%, mainly impacted by the valuation allowance on the French deferred tax asset.

Let's have a look at the year-on-year gross margin evolution. The Group's gross margin was 17.8% in Q4 2012, down 10 basis points year on year, and also sequentially. Temporary Staffing had 30 basis points negative impact on the gross margin in Q4, 2012.

As mentioned earlier, the Temp gross margin was impacted by how the bank holidays fell on working days. In particular, this impacted Germany and Sweden, where temporary employees (inaudible) Adecco's payroll.

Perm placement had a neutral impact on the Group's gross margin in Q4. Perm revenues were down 10% in constant currency in the quarter under review. The Outplacement business had a positive impact of 10 basis points on the Group's gross margin, while Other activities also had a positive impact of 10 basis points in Q4. The net impact of Acquisitions & Divestments had a neutral impact on the gross margin this quarter.

Now let me discuss how our cost base developed in the fourth quarter this year. We continue to closely monitor revenue developments and manage the cost base accordingly. SG&A in Q4 for the Group was down 3%, compared to the same quarter last year, on an organic basis and before restructuring and integration costs. Sequentially, our cost base was down 1%, after decline of 2% sequentially from Q2 to Q3 2012, on organic basis and before restructuring cost.

On an organic basis, FTEs were down 5%, year on year. The French network decreased by 2% organically, compared to the prior year. Our Q4 2012 results included EUR46 million restructuring costs, of which EUR33 million related to France, EUR5 million to Germany, EUR3 million to Italy, and EUR1 million related to Iberia.

In North America we had restructuring costs of EUR4 million for the data center consolidation. In Q4 2011, we had EUR12 million integration costs for DBM.

SG&A for the Group in the first quarter this year is expected to decline at a similar rate, year on year, as in Q4 2012, on an organic basis and before restructuring and integration costs.

The current slide shows an overview of the incurred restructuring cost in 2012, and anticipated additional restructuring costs for 2013.

In 2012 we incurred EUR60 million restructuring costs for France, and EUR17 million for other European countries and Japan. Costs for the data center consolidation in North America amounted to EUR6 million.

Given current trends, we anticipate to invest an additional EUR30 million in 2013. Roughly one-third of this investment are related to the ongoing data center consolidation in North America. The remainder will be invested in further aligning the cost base, the revenue development in France, and in other countries.

Moving on to the balance sheet. In June 2012, we launched a share buyback program of up to EUR400 million on a second trading line, with the aim of subsequently canceling the shares and reducing the share capital.

The share buyback started mid-July 2012. As of year-end 2012, the Company had acquired 3.8 million shares under this program for EUR145 million.

Our cash and short-term investments were at EUR1.1 billion at the end of Q4, 2012. DSO up 54 days in 2012, down one day compared to the prior year. Goodwill and intangible assets amounted to EUR4.1 billion at the end of December 2012. Adecco shareholders' equity was at EUR3.7 billion at the end of December 2012.

Turning to the cash flow statement. The operating cash flow channel rate in 2012 amounted to EUR579 million, compared to EUR524 million in the prior year, an increase of 10%. Cash used in investing activities was impacted by the purchase price [consideration] for the acquisition of VSN in Japan at the beginning of 2012. The Group invested EUR87 million, net of cash acquired, for VSN. CapEx was EUR88 million in 2012.

Cash flow in financing activities was EUR206 million. It included payments of dividends of EUR256 million, net inflows of EUR653 million, related to the net increase in short and long-term debt, and EUR191 million related to the purchase of own shares.

Net debt at the end of December 2012 was EUR972 million, compared to EUR892 million at the year-end 2011.

As per the end of December 2012, we had short and long-term debt of EUR2.1 billion, and cash and short-term investments of EUR1.1 billion. This resulted in EUR972 million net debt at the end of December 2012.

As mentioned earlier, in June last year we launched a share buyback program of up to EUR400 million, with the aim of subsequently canceling the shares. A CHF250 million five-years bond and a CHF125 million eight-years bond were issued in July 2012. In October 21 we placed an additional CHF100 million of the five-year Swiss franc bond, bringing the total amount issued under this financial instrument to CHF350 million. The proceeds are used to fund the share buyback. Our balance sheet remains in a very healthy state.

Given our solid financial position, strong operational cash flow, and cash-rich balance sheet, the Board of Directors, at the upcoming AGM, will propose a dividend of CHF1.80 per share, equal to the dividend paid for 2011. At the current share price, this yields 3.3%, and is equivalent to payout ratio of 49% of adjusted net earnings.

In addition, as Patrick mentioned earlier, going forward the Company's committed to pay at least a stable dividend compared to the prior year, even if the payout ratio is temporarily exceeded, and barring seriously adverse economic conditions.

This underpins our ability to generate strong operating cash flow, and our focus on organic growth.

Our financial guidance for the full-year 2013 is as follows. CapEx for the year 2013 is expected to be around EUR120 million. Interest expenses, excluding interest income, expected to be around EUR75 million for 2013. Our corporate costs for 2013 are expected to be approximately EUR100 million. And amortization of intangible assets is expected at EUR45 million for 2013. The underlying tax rate for Q1 2013 is expected to be around 31%.

As mentioned by Patrick, the revenues in the first two months of 2013 were down 5%, organically and adjusted for trading days. Please bear in mind that Q1 2013 has a negative trading day impact of 3% compared to the prior year. Easter Friday, for instance, falls for this year into Q1; and in 2012 we had 29 days in February.

As said, to further align cost to revenue development, we expect to invest EUR30 million in 2013, of which roughly the half of it will be in Q1 2013.

With this, I hand back to Patrick.

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

Thank you, Dominik. Let me finish with the outlook for our business.

Year-on-year revenue growth slowed in the course of Q4 2012, but stabilized into the New Year. In the first two months of 2013, the Group's revenues were down 5% compared to the prior year, on an organic basis and adjusted for trading days.

Within Europe, France remained challenging, while the revenue decline rate in Germany and Austria, adjusted for trading days, stabilized, despite the comparison against a strong first quarter in 2012.

In North America, revenue growth remained healthy, and the same held true for the emerging markets. Japan was still down.

In the current environment, price discipline and a proactive approach to cost management remain key; therefore we plan to invest further, EUR30 million, to optimize the cost base.

As Dominik said, SG&A for the Group in Q1 2013 is expected to decrease at the similar rate, year on year, as in Q4 2012, on an organic basis and before restructuring and integration costs.

We continue to be very focused on reaching our mid-term EBITA margin target of 5.5%. Based on the good progress made on our six strategic priorities, and more favorable economic conditions expected towards the end of 2013, we are convinced that we will achieve this target in 2015.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Rolf Kunz, Bank am Bellevue.

Rolf Kunz - *Bank am Bellevue - Analyst*

First, I have got two questions; first, on the achievement of the 5.5% EBITA margin target. So far, my understanding was that you clearly need two years of 5% to 10% top line growth. Is this still valid, and what are your other planning assumptions with regard to gross margin, for example? Because here, I always understood that given the high unemployment rate, gross margin, you won't have a lot of tailwind from -- on the gross margin side.

And the second thing is actually on Q4 profitability in France and the US. Here, you have clearly lost your leading profitability levels when I compare your numbers to -- mainly to Randstad. And in the US, you were actually able to show much better growth, but here it looks like this was clearly at the cost of profitability. Are there some explanations for this? Thank you.

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

Rolf, Dominik will handle your second question on the profitability in France and North America. Just one remark from my side. I hope you also look at the full year. And for the full year, we have leading profitability as a Group, compared to our peers; and the only country where we don't have it is Holland where one of our peers is six times bigger than we are.

So we have clearly leading profitability in all of our markets if you look at the year, and I hope you only don't look at one quarter always. So that's one remark from my side.

On the 5.5%, indeed, we are still aiming at two years of solid growth like we have had in 2010 and 2011 in order to achieve our target. And because of what we have done on our six priorities, but also because of the stabilization that we are seeing now in our business, because for the first time, if we look at historical trends, for the first time in six quarters now, if we look at our historical strength from Q4 to Q1, we are now on the average, whereas the previous six quarters we were below the average. So that's one indication that the business is stabilizing.

We also look at the [economical] indicators, of course, and we see that all indicators say that there is going to be a slight pickup towards the end of the year, which should result then into moderate growth for Europe in 2014 and 2015. And we have seen that with slight economical growth in 2010 and 2011. We really had good, solid double-digit growth, and that's what we are aiming for. But I agree with you that's what we need as well to achieve our target.

On the gross margin from where we are now, you've seen we have done a good job again over the year where we are up 50 basis points and 30 basis points organically. So we are at 17.9%. If we have an additional 30 basis points, that will help, of course, and that's what we are aiming for, but we always said that we didn't overdo it in our planning on the gross margin, so we don't need more. It has to come from top line growth and good leverage, and that's what we are aiming to achieve.

Dominik, if you want to add something on profitability.

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

If we look to these two market frontiers, first of all I think we also have -- like Patrick is saying, we have also to look for the full-year comparison.

In France, of course, we have to consider that all our work on the restructuring plans was done. We incurred a restructuring cost, but the real savings kicking in as of Q1. So from Q4 to Q1 you will have cost savings, which will also have the French profitability of annualized around EUR40 million. But that kicks in only into Q1, and then even if you have a good Temp margin and there is then 17% sales decline, it has some negative leverage.

Also from year-over-year point of view, you have to consider last year, and we said it after Q3. In Q4 2011, it was very favorable how we collect the social tax rebate, and we said this will not be the case in Q4.

So we still have a very solid Temp margin in France. It's only 10 basis points down. But the quarters before, we had always increases in Temp margin, nonetheless that the market was dropping and we are dropping, and this has to do with the fact that the year before was really very favorable in terms of social tax rebate.

So going forward, what can you expect from France? It's definitely that this margin reduction, minus 60 basis points, will clearly be better as the cost saving is now kicking in from our restructuring, which we basically are in the way to implement it, or primarily have done.

Looking to North America, on a year-on-year comparison, you see quite a drop in terms of our EBITA margin in Q4. But also what we said in Q3, bear in mind that Q4 last year, we had a kind of -- some releases, [the August comp], and some other things.

If we look sequentially from Q3 to Q4, we have a pretty stable EBITA margin before the costs for the data center consolidation, so it is pretty stable. But it's also fair to say, as you know, we were not satisfied one year ago.

For example, with our IT business, we also invested into our IT business and we see now the outcome. We see now double-digit growth in North America, plus 12% in the US, plus 16%. And the investments have occurred and they should still -- we should still benefit from this investment in the quarters to come.

And if we look to General Staffing, there we see also good growth. We have basically in '10 and '11, we are growing very strongly without really adding headcount. We really leveraged, and it was the year 2012 where we had also to add some resources.

So we also invested in this market so -- and I think it was the right decision because we put our money into this market, which basically has shown growth and continues, at least from our point of view, continues to do well. You see this also in the good Perm development.

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

Is that okay, Rolf?

Rolf Kunz - *Bank am Bellevue - Analyst*

That's okay. Thank you very much.

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

Thank you. Next question, please.

Operator

Tom Sykes, Deutsche Bank.

Tom Sykes - *Deutsche Bank - Analyst*

Congratulations on the dividend policy. I just had some questions on Japan, your Office business, and also SMEs. Could you maybe say what the demand is like in Japan outside of the big outsourcing contracts that you've lost, and whether excluding those you're stable to maybe growing?

And if one then looks at the Office business, there's obviously a negative impact on the Office organic growth from that Japanese business, but could you maybe say what's causing the acceleration in the US and UK? And do you think that that will have some positive mix effect for you over the course of the next maybe six to nine months?

And then just finally on SMEs. There's obviously signs of discriminatory lending to SMEs versus large corporates, and they're presumably still at a floor as a percentage of your sales. But are you seeing any signs of life at all from SMEs? And maybe any commentary on that would be helpful, please.

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

Tom, on Japan, we would still be negative if we would exclude the effect of the big outsourcing contracts, but of course we would only be slightly negative. You will see, unfortunately, a similar trend into the first quarter, but as from the second quarter you will see a lower single-digit decline. That's what we are aiming for because the base effect will then be gone in Japan.

Again, we continue to protect our profitability as we have always done. And this will then also, or should also, be even better if these decline rates are a lot less as from the second quarter.

On the UK and US, Dominik?

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

If we look to the UK first, they had good growth in Q4 in the Office business. It decelerated somewhat from Q3, but the deceleration from Q3 was because of the Olympic Games impact which was part of this Office line. Now the underlying growth in Office comes primarily -- there is a demand recovery from the Government sector where we had, besides IT people, also clerical people.

Then if we look to North America, basically if you look throughout the year, North America, the Office growth there was pretty stable; a little bit better now, plus 6% after plus 4% in the quarter before. But these are not (inaudible) to other sectors which do particularly well, it's basically across the board.

There we see more the cyclical development is really more in Industrial business where the logistic is picking up in Technology sector. But Office is quite stable, and it's also true that we added also some headcount to grow a little bit more.

Tom Sykes - *Deutsche Bank - Analyst*

Okay. And are you able to say approximately what the gross margin difference is between, say, Office North America versus Industrial North America in a -- just what approximately the gross margin differential might be?

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

The difference, this is in the area of 500, 550 basis points. But you have also to see the cost to [serve] in Office is definitely higher than in Industrial business.

Tom Sykes - *Deutsche Bank - Analyst*

Okay, certainly. Thank you.

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

And on the mix between small and medium accounts and large accounts, it's clear in Europe where the business is dropping that large accounts [step out furthest], so the mix is slightly improving. But then again we still see also SME's not really proportionally increasing a lot, so the customer mix has improved somewhat but not to an extent that this is now having a major effect.

Tom Sykes - *Deutsche Bank - Analyst*

Okay. And just as an addition to that, SMEs might be more affected by US healthcare reform. Everybody's going to be asked about it every quarter. What enquiries are you getting about US healthcare reform and the impact on your industry?

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

Tom, actually we see this as a potential positive for our business. The healthcare reform that's going to come in place as from January 1, 2014 is related to companies that have more than 50 FTEs. So one of the opportunities we see there is that companies that are around that number will try to stay below that number, and fill up the rest with temporary labor just to escape from the Obamacare, if I may say.

As far as our business is concerned, because of the length of the assignments of the people in our portfolio, and we've tested that against our whole portfolio, and the salary levels, the large majority, the very large majority -- we're talking really about small amounts here that are left over -- of our business will not be impacted by the Obamacare.

And for those few where it does, we will pass it on to our customers because our customers know about it and have it as well.

So I think the good news here for our Company is that we're not going to be impacted by it; and that there is even opportunity in the market by having more temps instead of fixed employees because of this measure.

Tom Sykes - *Deutsche Bank - Analyst*

Yes, okay.

Operator

Paul Sullivan, Barclays.

Paul Sullivan - *Barclays - Analyst*

Just a couple of questions on costs. Can you just give us a sense, or quantify the additional savings that you expect from restructuring, and when you'd expect those to flow through this year?

And then just more generally, if you look at your guidance I think it implies flat sequential cost development organically, Q1 versus Q4. I know there's a little bit of seasonality in there, but could you give us a sense of any underlying cost inflation that you're seeing elsewhere, or any offsets, and how we should expect the underlying cost development to progress through this year on a sequential basis?

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

Okay, if we first look to the EUR30 million. One-third is for the data center consolidation in North America, and this is really investment to have the basis to have to [pluck] from the data center for our new [common] solution. So it's not, for me, a kind of investment where you immediately see the cost savings, it's really investment into the future.

So from this you should not expect -- there are cost savings, but you should not expect too many savings. The savings are more long term and it's more the savings will come through if you then roll out all the global systems, basically.

Then another third is related roughly to France, and now in France the payback period of this investment are rather longer than in other European countries, so we talk there more about 1.5 years.

And the rest is other countries, and there the payback is normally between nine and 12 months. So half of it we will spend in Q1, and then you can calculate more or less how this will come through based on the indication which I have given to you.

Coming to the development of costs sequentially, you have to see we really manage always our cost base and our headcount really in line with the development of our temps, in line with the development of our sales and cross profit. So we are also not adding headcount before the negative territory started at the beginning of this year.

We have taken out basically from Q3 to Q4 around 2%. We had 1% decline in SG&A. Sequentially, going forward into Q1, we'll take out again roughly 1.5%. Costs are more or less sequentially similar, yes, because the decline is similar. Why is there not a saving coming through? Because you have to consider that in some countries we have -- the underlying savings are there, but in some countries we have wage inflation as of January 1. So this is a compensating item.

And then Q1 has -- compared to Q4, is seasonally a little bit bigger because you have to start off the year, you have all the kick-off meetings where you -- in the countries where you really bring the people in the right direction for the rest of the year. So you have some more costs at the beginning of the year.

And going forward, we have again -- that's for me then more the question, how is also sales developing? We try to manage this very well. If you look to the whole last year, we had 4% sales decline and our EBIT margin was dropping 10 basis points. Why? Because we always try to manage this very close to each other.

What is important to say, I think, for Q1, it's important to mention this. If we say, and I said also in my speech but I want to repeat it, if we have in January, February minus 5% decline adjusted for trading days organically, you have to consider we have in Q1, a negative trading day impact of 3%.

So if you make your calculation, just consider this as well in this respect. But this is a temporary thing, because Easter Friday is then not in Q2. So it's just a temporary thing in this respect.

Paul Sullivan - *Barclays - Analyst*

Great. Thanks.

Operator

Toby Reeks, Bank of America Merrill Lynch.

Toby Reeks - *BofA Merrill Lynch - Analyst*

Just back to that 5%, 5.5% margin in 2015, it sounds like you're looking for double-digit top line growth. Can you be a bit more specific about what you think the gross profit assumption, or how you modeled it with gross profit or gross margin? And are all the cost cutting initiatives in that 5.5% margin factored in now, or should we be looking for more as go through into the second half of 2013? That's the first one.

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

If we first look to the cost, we're still expecting cost savings from our restructuring which we have done; we just finalized the final project. We announced an additional EUR30 million. Then you may remember, on the Investor Day, when Patrick was talking about the six priorities, he said also IT is an important priority.

And I said in my speech, in 2013, as we have no one global IT organization, we will accelerate some of the IT spending, which will impact, in 2013, our cost base in terms of cost decline or growth, whatever it will be, by 1%.

So this you have to consider, and this investment we will do. Of course, this investment, in the long term, will give us a lot of more productivity. There will be then definitely returns there in 2015, but there should also be more returns coming after 2015. But part of the returns will be definitely there. So from a cost point of view, this is very important.

Then, if you look -- we still have to align and, therefore, we have still restructuring cost. We still feel that we have a little bit of overcapacity in France, and especially in Japan where we have to take out costs and in some other countries, smaller things.

But otherwise, it's been really about if the economic conditions are more favorable, and if the business is picking up, that we basically leverage how we have shown this also in the years 2010 and 2011, in an environment which, I would say, moderate GDP growth.

We have 12% organic growth 2011/'10 and, if you remember, our presentation at the Investor Day, where we showed the FTEs during these two years, the index of FTEs was only up 3%. So there you see how we can achieve these things.

Of course, the assumption is also that the Professional will grow fast, that the mix is improving; this has a positive impact slightly on gross margin and slightly negative on costs. But based on this, we will achieve this.

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

And as I said earlier, on the gross margin we are already at 17.9%; that's quite an improvement. And if we add 30 basis points there, for example, but we don't need more with the top line growth that we are aiming at.

Toby Reeks - *BofA Merrill Lynch - Analyst*

Okay. Thanks very much, guys. The second one is on the balance sheet; clearly, you haven't done all your buyback. Should we be looking for you guys to, once you've completed your buyback program, to do another one, or how else would you use the balance sheet?

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

I think we announced the buyback of EUR400 million; we still have some things to do. And when this is concluded, we have then to rethink. But we have first to conclude the share buyback before we have all the discussion with the Board about these things.

Toby Reeks - *BofA Merrill Lynch - Analyst*

Okay. So when would we expect that to be completed then?

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

It depends a lot on the trading volume. When we announced it, and also at the Investor Day we said, trading volumes in equities also are rather low. So therefore, we had limitation what to buy back. Of course, we do that opportunistic, but if you look to the current cash position, EUR1.1 billion, there is no reason to wait here to continue.

And we will continue with the share buyback until when it's done; it will be somewhere over the course of the year. We have to see how the trading developments -- how the trading volumes will further develop in equities in (inaudible).

Toby Reeks - *BofA Merrill Lynch - Analyst*

Okay. And then the final one, just one on tax. Could you talk us through -- I think there was an exceptional tax charge in Q4, can you talk us through that, please?

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

So basically, if you look to the Q4 tax rate which, of course, looks very high, the 70% reported, if you take out the one-time items, we have a tax rate in Q4 of 34%, and for the whole year of 31%. The guidance for Q1 is also 31%.

The main reason that we had a higher tax rate in Q4 is related to the valuation allowance which we have booked in France for the DTA in this country. The triggering event to do this valuation allowance is the introduction of the new law. There's a new law called CICE, which basically aims to give companies a [funded] tax credit in order to be more competitive, in order to be more productive. And this law will change the earnings pool, the taxable earnings pool for the following reason.

The tax credit which we receive is not part of the taxable income, whereas any investments which we are doing, i.e., when we invest in IT systems and declare this as a usage of this tax credit, is tax deductible. So therefore, the earnings mix is changing and, therefore, we are in a tax loss position, as the whole tax credit is not taxable.

And that's the reason why we have done this valuation allowance in France, which is the reason why we had this high tax rate in Q4. There is no cash outflow out of it; it's a valuation allowance based on this new law. The law itself, we believe, is positive for our business and also for the French economy, hopefully.

Toby Reeks - *BofA Merrill Lynch - Analyst*

Okay, guys. Thanks very much.

Operator

Michael Foeth, Bank Vontobel.

Michael Foeth - *Bank Vontobel AG - Analyst*

Just one question; if you could comment on your Outplacement business, the trends that you see in recent months, in particular in the UK and US, and eventually other relevant regions? And also what you expect for that business in 2013, given the economy is still quite difficult.

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

If we look to the Outplacement business, the growth slowed somewhat down from Q3 to Q4. This was as expected, because you may remember, after Q3 we said we see that our growth which was in Q3 in the US, plus 9%, will slow somewhat down. This is actually happening, and is slowing, but not anymore -- it's still growing, but not any more loss. And this is related that the US economy is definitely in a better shape than Europe.

But it's not that we're seeing that this is now coming totally under pressure, because even with these better economic conditions in the US, still the economic conditions there, a lot of restructuring will occur, especially in sectors with structure problems. Some areas in the IT, in some pieces of the IT segment, some pieces of pharma, some pieces of finance.

So there is still projects going on but we are not concerned that this now slows necessarily down.

If we then look in Europe, unfortunately this business never really picked up so far in France and I think -- needless to say there is a lot of need of restructuring in France. But it's still weak in France and it's doing well in other European countries.

Also the UK was not a lot of growth so far, so the growth comes primarily from Asia and from other European countries, but if you look to the mix of the business, 50% is in US. They will have similar growth like they have shown now; a little bit more than 20% is in France which is still declining, and the rest is growing. So I would say in the short term, the growth rate will be in the lower to mid single digits.

Michael Foeth - *Bank Vontobel AG - Analyst*

Okay, excellent. Thank you.

Operator

Konrad Zomer, Berenberg Bank.

Konrad Zomer - *Berenberg Bank - Analyst*

I have two questions please. The first, you mentioned you expect another 300 FTEs to lay off in France. Can you tell us if that's part of another social plan, is that part of the social plan you had approved last year or would you not need a social plan for these 300 people?

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

I will answer that first question. Actually the 300 FTEs are already mostly gone because the -- we also had some people -- you have natural attrition of course. We also had some people with a limited time contract that we have let go, so on top of the program of the more than -- the voluntary program which was limited to more than 500 people, these were the people that were additionally let go.

Some of them in agreement, some of them because of the ending of the contract and not being replaced, and then the natural attrition that you always have, but that we also didn't replace then, of course, in view of the circumstances. So this is already done.

Konrad Zomer - *Berenberg Bank - Analyst*

But they were on top --.

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

The bigger part.

Konrad Zomer - *Berenberg Bank - Analyst*

Okay, but they were on top of the 500 that were part of the Adia integration?

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

If you compare to the beginning of the year and you look at the FTE development recently, there -- that's almost the total amount, yes.

Konrad Zomer - *Berenberg Bank - Analyst*

Okay. And then my last question on the Automotives business in France and Germany. Can you share with us if that business is down more than 10%, let's say, in Q4, or year to date in terms of revenues, please?

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

In France it is. It's really year on year it's down 45%, so it's tremendously down. So we -- and as you know our exposure is rather important to that. It's -- in Germany, it's down 1%.

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

But what's happened in Germany, to maybe add something, we said that we had done a peak of temps in August and since then it's slowed sequentially, always a little bit down. We still had strong double-digit growth and it slowed down towards the end of the year. It's -- the year's start was quite normal by this small decline rate.

Konrad Zomer - *Berenberg Bank - Analyst*

Okay, thank you.

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

Thank you. Last question?

Operator

Andy Grobler, Credit Suisse.

Andy Grobler - *Credit Suisse - Analyst*

Just a couple of quick ones from me. Just on the Q4 gross margin, you mentioned that working day adjustments in Germany and Sweden had quite a big impact. Can you quantify what that impact was in terms of the Temp gross margin decline for Q4?

And then secondly just on French social charges and all of the plans and regulation that is going on there, what are your expectations for the impact on your business? Thanks.

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

If we start with the gross margin development, the impact on the Temp margin was down in Q4 30 basis points on the Group level, and 20 basis points is solely related to the bank holidays which occurred in Q4 on a week day compared to a weekend day the year before, so 20 out of the 30 on a Group level from a year-over-year comparison.

In Q1 it will be a bit more significant. It will be rather 30 basis points and the reason is that last year we had no bank holiday in Q1, whereas this year, if I take the example of Germany, this year we have two because we have January 1, which is this year on a week day. Last year it was on a weekend. And we have the Easter Friday which is this year in Q1. Last year it was in Q2, so this is worse compared to Q2.

And therefore the impact just on the bank holidays of these two countries -- but you know also in other countries, sometimes you have to pay bank holidays but there it's more important because the people are employed by us -- will be in Q1 roughly 30 basis points from a year-on-year comparison.

Andy Grobler - *Credit Suisse - Analyst*

Okay.

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

And the second question was because of the fees or --?

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

No, what's the impact -- what we see there, you know this credit d'impot, so the credit that the government is giving to companies to make employment more competitive, the CICE as it is called, it's applicable to salaries up to 2.5 times the minimum salary, which I think is very good for the economy. And if it's good for the economy it will have in the end, have a positive effect on our business as well.

As far as we are concerned as an employer, of course it will applied to the majority of our own people, to the majority of our temps, to the large majority of our temps, because they are below this 2.5 times minimum salary.

Now you have to say that this law came into place on December 29 and that's why we have also taken this valuation allowance, like Dominik said. Because had the law really happened in Q4, despite what other people said, and the -- as far as -- what is true, of course, is that all the rules are still not clarified.

What is clear is that part of the money that companies are getting back has to be reinvested, whether that is in R&D, whether that is in training, whether that is in additional employment, has to be clarified and has to be agreed with the workers' councils. And we think that this is going to be clear over the summer but by law we are the clear employer and will get those subsidies granted as well.

Andy Grobler - *Credit Suisse - Analyst*

So does that mean it's too early to quantify?

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

It is because between -- the things on the reinvestment and which part has to be reinvested and in what, really has to be clarified before we can say anything about the impact on our margin and on our business. So we rather wait for the clarification of the law before making any statements on what the impact would be. But all in all, it will be positive.

Andy Grobler - *Credit Suisse - Analyst*

Okay, thank you very much.

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

Okay.

So, ladies and gentlemen, this concludes our Q4 conference call. I'm looking forward to speak to you again on, together with Dominik and Karin, on May 7 when we announce our first quarter results, if not sooner, like tomorrow morning in London at breakfast. 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 Chorus Call and thank you for participating in the conference. You may now disconnect your lines. Goodbye.
