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ADEN.VX - Q1 2013 Adecco SA Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, good morning; welcome to the Adecco Q1 results 2013 analysts and investors conference call. I'm Selina, 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-Thomann - *Adecco S.A. - Head of IR*

Good morning, and welcome to Adecco's first quarter 2013 results conference call.

Patrick, Group CEO; and Dominik, Group CFO, will lead you through the presentation today, followed by a Q&A session. Before we start, as always, please have a look at the forward-looking statement.

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. - CEO*

Thank you, Karin. Good morning, ladies and gentlemen, welcome to our Q1 results conference call.

First, a quick glance at the highlights; we had revenues of EUR4.6 billion; down 5% organically and adjusted for trading days. This compares to a decline of 8% in Q4, 2012. The revenue trend in North America held up well, with 4% organic growth adjusted for trading base.

Most of Europe remained challenging, although the negative trends are starting to bottom out. France still had a double-digit sales decline, but the gap to the market narrowed. In Italy and Iberia, the year-on-year revenue decline rates eased. The rate of decline in Germany remained stable.

Elsewhere in the world, Japan still declined, impacted by the high base of last year; whilst emerging markets' growth remained solid.

The gross margin in Q1 was 18%; down 20 basis points year on year, and 10 basis points on an organic basis. As we have previously guided, gross margin was significantly impacted by the timing of the bank holidays in Q1.

Costs continued to be well managed. SG&A, organically and before restructuring and integration costs, was down 3% year on year, and flat sequentially. This resulted in an EBITA before restructuring cost of EUR138 million, an EBITA margin of 3%, down 80 basis points compared to last year.

In March, revenues were down 4% on an organic basis and adjusted for trading days. April showed a similar trend.

In the quarter, we made further progress on the share buyback, and to date we have acquired 7.5 million shares under the program for EUR299 million.

Let's have a look at the organic revenue development by region. In North America, revenue growth was 2% year on year. Adjusted for trading days, revenues were up 4% in Q1, the same rate as in Q4, 2012. Both General and Professional Staffing contributed to the solid growth trend.

Revenues in Europe were down 10% in the first quarter, or down 7% adjusted for trading days. This shows that the rate of decline is starting to bottom out. The following growth rates by country are all adjusted for trading days. In France, revenues declined 15%; Germany and Austria was down 4%. In Benelux, we outperformed the market in Belgium, but had weaker growth in The Netherlands. In Italy, revenues were down 4%, and in Iberia down 5%. The Nordics were down slightly; and UK and Ireland returned to growth in Q1.

The Rest of the World was down 8%. When adjusting for trading days, revenues in Japan declined by 15%. And in Australia and New Zealand, revenues were down 8%. While the emerging markets grew 8%, mainly driven by Latin America.

And now we go to our main markets. In France, revenues were down 17% year on year to EUR1.1 billion. Adjusted for trading days, the decline was 15%, compared to an 18% decline in Q4, 2012. And the gap to the market narrowed, as said. From an industry perspective, we saw weakness across the board, but most pronounced in Automotives and in Manufacturing. Our Perm revenues were down 24% in Q1.

The combination of the networks of Adecco and Adia is now completed. As we have previously indicated, given the tough economic environment, we are taking additional actions in 2013 to further align the cost base to revenue development in France. We incurred EUR6 million restructuring costs in the quarter under review. The EBITA margin before restructuring costs was 2.5%, compared to 2.3% in Q1 last year. The Q1 margin was positively impacted by CICE, which is the Tax Credit and Competitive Employment Act. Revenues in March were down 14%, adjusted for trading days.

In North America, revenues were up 2% organically, to EUR888 million. Organically, and adjusted for trading days, the increase was 4%, which is in line with Q4 2012. Revenues in General and Professional Staffing were both up 2%. The North American IT Professional Staffing business grew 5%, year on year, organically, driven by good growth in the US of 9%. The Medical and Science business was again up strongly, 14% in constant currency. Engineering and Technical was flat, year on year; whilst Finance and Legal declined by 4%.

In Perm our revenues continued to develop very well, up 14% in constant currency. Excluding EUR4 million restructuring costs for the consolidation of data centers in North America, the EBITA margin in Q1 was 4%, compared to 4.3% in Q1 2012. In March, revenues were up 4% organically and adjusted for trading days.

Revenues in the UK and Ireland amounted to EUR456 million, flat on a constant currency basis. In constant currency, and adjusting for trading days, revenues were up 4% in Q1, compared to a 3% decline in Q4 2012.

In the quarter under review, Perm revenues were down 26% in constant currency. The prior year benefited from the Olympics, however. The EBITA margin was 1.8%, compared to 2.4% in Q1 2012. Revenues in March were up 8% in constant currency, and adjusted for trading days. Note that Q2 2012 benefited from a ramp-up in Temps for the Olympics.

In Germany and Austria our revenues declined by 8% organically. Organically and adjusted for trading days the decline was 4%, the same as in Q4, 2012. In Q1, Automotives showed the normal sequential seasonal pattern, with a year-on-year decline similar to Germany and Austria as a whole. The amount from the Aerospace sector remained solid.

EBITA was EUR18 million, or an EBITA margin of 4.9%. This compares to 8.3% a year ago, excluding EUR3 million restructuring costs in Q1, 2012. As we guided previously, the timing of the bank holidays had a substantial impact on profitability in Q1 of this year. In March our revenues were down 2%, organically and adjusted for trading days.

In Japan, revenues were down 21% in constant currency, still impacted by the completion of some of the bigger outsourcing projects in 2012. At constant currency and adjusted for trading days, revenues declined by 15% in Q1, compared to a 19% decline in Q4 2012. The EBITA margin was 4.5%, compared to 5.8% in Q1 last year.

In March, revenues were down 20% at constant currency and adjusted for trading days. As of the second quarter, the revenue decline rate should ease.

And finally, we turn to Adecco's development by business line on a constant currency basis. In Q1, revenues in our General Staffing business were down 9%. The Industrial business was down 10%, while the Office business was down 8%. Revenues in Professional Staffing were down 2% organically, in Q1. Our Solutions business increased by 5%. Revenues at Lee Hecht were up 3%. This continued out-performance of the market reflects the attractiveness of our global offering in outplacement. Also, our 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.

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

Thank you, Patrick. Good morning, ladies and gentlemen.

I will start with the overview of the P&L. In Q1, 2013 we had revenues of EUR4.6 billion, down 10%, or minus 8% in constant currency. Organically and adjusted for trading days, revenues were down 5%. Note that in Q1, 2013 the currency impact was a 2% negative on Group revenues, whereas the impact was a 2% positive in Q4, 2012.

The gross margin was 18% in Q1, down by 20 basis points, year on year, or by 10 basis points organically. Sequentially, the gross margin was up 20 basis points.

SG&A was down 4% in constant currency, compared to the prior year. SG&A was 3% lower, year on year, on an organic basis and excluding restructuring and integration costs. Sequentially, the cost base was flat on a constant currency basis, and when excluding restructuring costs.

EBITA was EUR127 million. Excluding restructuring costs, EBITA was EUR138 million. The margin was 3% in Q1 2013, down 80 basis points compared to Q1 2012, excluding restructuring and integration costs.

Net income in the quarter under review was EUR67 million.

Let's have a look at the year-on-year gross margin evolution. The Group's gross margin was 18% in Q1 2013, down by 20 basis points year on year, or by 10 basis points organically. Organically, Temporary Staffing had a 25 basis points negative impact on the gross margin in Q1 2013. As mentioned earlier, the Temp gross margin was impacted by the timing of bank holidays. In particular, this impacted Germany and Sweden, where temporary employees are on Adecco's payroll.

Perm placement had a neutral impact on the Group's gross margin in Q1. Perm revenues were down 9% in constant currency. The Outplacement business had a positive impact of 15 basis points. Acquisitions and divestments had a 10 basis points negative impact, year on year, this quarter.

Now let me discuss how our cost base developed in the first quarter this year. We continue to monitor revenue development closely, and manage the cost base accordingly. SG&A in Q1 was down 3%, compared to the same quarter last year, on organic basis and before restructuring and integration costs. Sequentially, our cost base was flat, at constant currency and before restructuring costs.

On organic basis, FTEs were down 5% year on year. The branch network also decreased by 5% organically, compared to the prior year. Our Q1, 2013 result included EUR11 million restructuring costs. Of this, EUR6 million related to France, EUR1 million to other countries and EUR4 million to the data center consolidation in North America. In Q1 2012 restructuring costs amounted to EUR8 million and in addition we had EUR3 million integration costs for DBM.

SG&A for the Group in the second quarter this year is expected to be similar to Q1 2013 on a constant currency basis and before restructuring costs.

The current slide shows an overview of the incurred restructuring costs in 2012 and in Q1 2013, and the anticipated restructuring costs for the full year 2013. As announced in March, we expect to invest EUR30 million in 2013 to further optimize the cost base, of which EUR11 million was incurred in Q1. Of the total EUR30 million roughly one-third of the investments are related to the ongoing data center consolidation in North America. The remainder will be invested in further aligning the cost base to revenue development in France and other countries.

Moving on to the balance sheet, our cash and short-term investments were EUR941 million at the end of Q1 2013. DSO was 54 days in Q1 2013, the same as in Q1 2012. Goodwill and intangible assets amounted to EUR4.1 billion at the end of March 2013.

Adecco shareholders' equity was EUR3.7 billion at the end of the period. In June 2012 we launched a share buyback program of up to EUR400 million on a second trading line with the aim of subsequently cancelling the share and reduce the share capital. The share buyback expired in mid-July 2012. To date the Company has acquired 7.5 million shares under this program for EUR299 million.

Turning to the cash flow statement, cash used in operating activities was EUR28 million, compared to operating cash flow generated of EUR137 million in the first quarter last year. Q1 2013 was impacted by social security payments related to prior years and by lower collection of receivables at the end of March, given the timing of Easter.

In Q1 2013 the Group invested EUR20 million in CapEx and paid EUR69 million related to the purchase of own shares.

Net debt at the end of March 2013 was EUR1.1 billion, compared to EUR972 million at year-end 2012.

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 approx. EUR100 million. And amortization of intangible assets is expected at EUR45 million for 2013. The underlying tax rate for Q2 2013 is expected to be around 30%.

As we have said, to further align cost to revenue development, we expect to invest a total of EUR30 million in 2013, of which we incurred EUR11 million in Q1. Of the remainder, we expect to invest approx. EUR10 million in Q2 with the balance split between Q3 and Q4.

And with this I hand back to you, Patrick.

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

Thank you, Dominik. Now, let me finish with the outlook for our business. On an organic basis and adjusted for trading base, revenues were down year on year by 5% in Q1 and by 4% in March, and April showed a similar trend.

In North America revenue growth held up well. Within Europe revenue trends are starting to bottom out. In France the gap to the market has narrowed since the beginning of the year, but conditions remained challenging. Elsewhere in Europe, revenue growth stabilized or improved slightly. Japan was still down, but as from Q2 the rate of decline should begin to ease. In the emerging markets the revenue growth continued to be solid. Given these trends, we continue to focus on price discipline and cost control.

As we announced in March, we plan to invest a total of EUR30 million in 2013 to further optimize the cost base, of which EUR11 million was already incurred in Q1.

As Dominik said, SG&A in Q2 2013 is expected to be similar to Q1, on a constant currency basis and before restructuring costs. We continue to be very focused on reaching our mid-term EBITA margin target of above 5.5%. And, given recent trends and more favorable economic conditions expected towards the end of 2013, we remain convinced we will achieve this target by 2015.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Laurent Brunelle, Exane BNP Paribas.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Two questions, if I may. First, can you maybe give us more color about April trends by country, if you can? And can you be a bit more precise on the challenging French market by segment?

And second, can you maybe be -- can you tell us why you are becoming more confident to achieve your 2015 margin target? And what is new regarding the European macro situation for you, please?

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

Laurent, I will take your second question on the target -- on the 5.5% target. We discussed also when we were over in Paris; nothing has changed since we have been there. The economical indicators are still pointing out to a more positive trend towards the end of the year and certainly into next year.

Please don't forget that we're only representing 2% of the -- the flexible workforce only represents 2% of the total workforce. And we are convinced, as it happened in -- at the end of 2009/2010/2011, that the growth will be done with temporary employees and not with fixed employees. At least, mainly it will be done with temporary employees.

Now, if you look at our trends -- historical trends, I said this also in March, we are really back to the long-term trend, and we were for the first two months of the year, and March only confirmed that. And so, going forward, we see that we are back to the long-term trend. It's true that France and Japan are still behind; that countries like Germany, UK and US are above; and all other countries are easily on the trend or slightly above.

And with this I come to what you say in France. France is, of course, still challenging. We see the market not picking up; it's still double-digit down. It's bottoming out; it's not further declining. And we see that the market is more coming to us, so the gap is narrowing.

More than that I cannot say, and this continues in April. You have seen we were in France 18% down, adjusted for business days in the fourth quarter. This was now 15% in the first quarter and it's 14% in March. So, it's gradually improving, but it's not now an improvement to say, hey, this is going to be now a single-digit negative in the second quarter. This will not be the case.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay. And one follow-up, if I may? When do you expect to grow in line with the market in France, please?

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

But, Laurent, you see, first of all, you know where we're coming from. We said in November 2011 that we were really focused on more profitability. You see that we have -- and, of course, we are helped by CICE but we have again a good profitability in France, if you compare us to peers, of course. You cannot say good profitability compared to other countries or to -- but, okay. So, we focus on the profitability there, in France. That's one thing.

Second, we have brought these two networks together and, of course, this had an impact as well, but this is now behind us. So, it will take a few more months, but you know that from the PRISM we get weekly numbers, and week after week we are narrowing the gap and so we are sure we will narrow it, but it will take a few more months.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay, thank you.

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

And, Laurent, to your other question regarding the trend into April and, as we said, April is a similar trend. If you look by country, because this was your question, there are basically two countries where we have a kind of different trend. In Japan we had an exit rate in March of minus 20% and this is ,in April, materially better.

The reason is, of course, that this big outsourcing project where we gained two years in a row a lot of market share, this base effect kicks now in, so the base has become easier as of April. So, on the other hand, the UK had an exit rate quite strong in March of plus 8% and this is clearly lower. It's still growing, of course, but it's lower. So, these are the two countries where I say the exit rate is not similar. In all the other countries we have really the same -- similar exit rates into April.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

And you have not noticed any particular difference in April versus March?

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

No. It's similar.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Just to be sure; thank you very much.

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

Thank you. Next question, please.

Operator

Tom Sykes, Deutsche Bank Research.

Tom Sykes - *Deutsche Bank Research - Analyst*

I wonder just at the Group level, do you think, given the movement of your revenues, gross margins and SG&A, now that you can actually be up year on year, or at least flat in EBITA terms in Q2?

And then in terms of the gross margin, could you detail the negative in Germany and Sweden versus the positive of France, please, in the CICE?

And then, finally, just on the North American performance, you've obviously seen a slowdown in growth there and I'd see -- maybe see that as slightly disappointing, the North American performance. Could you maybe outline what's happening by industry, clerical and professional, there? And what your expectations for the US, sorry, in particular would be, please?

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

I will take your question on North America maybe, Tom, before handing over to Dominik.

On North America, I must say, if you compare us to other players, whether it's in Professional Staffing and General Staffing, personally. we are -- as you know, we are never happy, but we are okay with these results; EBITA plus 2% growth, where some of the peers are turning, clearly, into negative growth in North America. If we look at Professional Staffing, it was up 6%. Office was up 2%. Industrial, which is the indicator, was up 5%, so that's still an indicator that things also for the future look good. And Perm up 14% is, I think, very strong. If you look then at IT it's up 7%; Engineering & Technical, and I'm now talking for the whole of North America here, 2%; Finance & Legal minus 2%; and Medical plus 14%.

So, yes, I think this if you just compare to other players in the market and what the market is doing, I would not say that this is -- but, okay, that's your judgment, but I would not say this is disappointing; at least, for us, it was not.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay. And should you be getting some operational gearing going forward if you --

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

Yes.

Tom Sykes - *Deutsche Bank Research - Analyst*

You're sounding like you expect hopefully an improvement in the year-on-year growth?

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

We said that also in the first call this year, in the March call. Of course we have invested in that market. We have invested as well in General Staffing, as in Professional Staffing, and as from the second quarter we should see better leverage.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay thank you.

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

And in answer to your question, first of all regarding EBITA margin for Q2, we're not guiding now exactly on the EBITA margin, but what I want to help it a little bit. If we look to Q1 we know, of course, that a lot of the 80 basis points decline was related, on the one hand, that we had bank holidays, and which especially in Germany and Sweden cost us a lot of money, whereas last year was no bank holidays.

Secondly, of course, if we have the negative trading impact of 2.7%, it has a kind of deleverage. And then take into account that we say similar costs into Q2 and the gross margin is sequentially also similar, knowing that just from a seasonal point of view Q2, you make more sales, you can come up with your own number, but I think this is the direction.

Tom Sykes - *Deutsche Bank Research - Analyst*

Yes, okay.

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

So then coming to the impact of this bank holiday, so just the bank holiday payment, not missed sales to make this clear, and the bank holiday impact just that we had to pay them in countries like Germany and Sweden is higher than the seasonal impact in Q1. And if you look to Germany, if you look to the margin reduction in Germany, I would say two-thirds of the EBITA margin reduction in Germany is related that we had May 1 on a weekday and that we had the Easter Friday in Q1. Sorry, not May 1, January 1, excuse me, that's in Q1.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay, thank you.

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

And, of course, it has also an impact in Sweden. What we have not counted number is, on top of that, in Norway we have the construction workers also on the bench. So all these things had, of course, an impact.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay thank you and the off-setting positive contribution from the CICE (multiple speakers)?

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

If we look -- you have to see this. The seasonal thing is, for us, now, an operation benefit going forward. It's very clear that also from the regulation point of view and from the administration rules that this benefit should definitely belong to us.

There are different ways to use this kind of tax credit. From a cash flow point of view, we get it only in 2017 but, of course, we recognize the profit accordingly every quarter. And if you look, I would say if you look in Q4 to France, and trading conditions in Q4 and Q1 are pretty similar in France, in Q4 we had the EBITA margin decline of 160 basis points and now in Q1 we have plus 20 basis points. So we talk about the kind of gap of 180 and there are two big drivers of this change. One is the cost cutting from our structuring which kicked in; and the second one is the season, these are the two drivers.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay, thanks very much, thank you.

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

Next question please.

Operator

William Vanderpump, UBS.

William Vanderpump - *UBS - Analyst*

Just a couple of questions from me, on the gross margin I think you alluded to some stability in the gross margin going forward for the rest of the year. Is that basically because the Temp gross margin decline of 25 bps goes away and then you're left with the outplacement benefit less the M&A drag?

And I think secondly related to that, probably some quarters ago you were talking about the ability to grow margins, year on year, for a full year even in slightly declining organic growth environment, could you just update us on your latest thoughts on that kind of sensitivity please, given everything that's moved since then?

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

Okay, I was not saying stable gross margin for the whole year. Unfortunately, I cannot know what happened in Q3 and Q4 in the market. I said into Q2, and I talk about sequentially more or less stable overall gross margin. If our overall gross margin is sequentially stable; it's actually up year over year.

William Vanderpump - *UBS - Analyst*

Okay.

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

So talk sequentially stable, that means actually year over year it's up. And it's basically a function of having a stable Temp margin quarter over quarter as well. You have to see last year was the Temp margin going from Q1 to Q down; we don't expect it for this year. Of course -- one reason is, of course, that this year we had two bank holidays which had not occurred last year.

William Vanderpump - *UBS - Analyst*

Okay.

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

Okay next question please.

Operator

Paul Sullivan, Barclays.

Paul Sullivan - *Barclays - Analyst*

Can I just follow up on the -- just on the working day impact? Can you just tell us how you see it playing out for the rest of the year in terms of the quarterly impact? That's the first question.

And then the second question just in terms of SG&A, it seems to me you've said it's stable -- your expectations are stable going into the second quarter. Should we then assume a little bit of cost creep coming back into the business? Would that be your base case, obviously dependent on revenue trends? But you've got some additional cost cutting coming through in the second half, but should we assume that SG&A is bottoming out here?

And then the final question, just on Nordics and Australia, these are two markets where you're sort of either in loss-making or close to break-even, any color there on specific trends or cost containment actions that you're undertaking?

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

That's a perfect question about the business, the impact of the business. The impact was in Q1 minus 3%. In Q2 it will be rounded 1%; it's 0-point-something, but rounded 1% positive; and in Q3 plus 2%; and Q4 is equal.

So then regarding the cost development, we manage our cost base very close. What we see in our capacity management and all these things, so it's not that I want to guide now what will be the cost base in Q3 or Q4, because we manage this very carefully. And you can be assured that if we have a recovery that we always try to work a lot on operation leverage. For example, Perm would pick up here. Of course, you have more costs, because you have Perm commissions and stuff like it, but we try to manage this very carefully.

We have cost savings for our structuring, but you should also not underestimate into Q2 we have also wage inflation. We have a little bit of wage inflation in France, because that comes in April 3; the wage inflation in US as of April 3, which are our two biggest businesses, and they eat also this kind of restructuring costs today. And there's also a little bit seasonally more marketing in Q2 than in Q1.

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

Paul, on your question of the Nordics, it's true that we are negative there in the first quarter. This, of course, has also to do with the bank holidays in Sweden and somewhat less utilization in Sweden, but also in Norway, because of a pretty tough winter that's -- and we have quite exposure there to construction where we also have a majority of the people on the payroll. So this hit us also in Norway in the first quarter. So you should see us return to a more normalized situation in terms of profitability in the second quarter in the Nordics.

Now as far as Australia is concerned, a better drop off, 11% we are more or less there in the market. Of course, our profitability bit 1.1% is not good, it will take a bit longer there to recuperate, but also there it will be better in the near future.

Paul Sullivan - *Barclays - Analyst*

Right, thank you.

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

Next question, please.

Operator

Toby Reeks, Bank of America.

Toby Reeks - *BofA Merrill Lynch - Analyst*

Could I ask three questions? They're fairly short, so they shouldn't take too long.

When you talk about the current buy-back program so far, should we infer that you're thinking about another one once this one is completed?

And the second one is the investor -- are you guys starting to increase advertising in any markets, I know Randstad said they were into sort of Q2 and Q3? And if so, is that an expectation that we should be seeing some more positive trend coming through in the fourth quarter?

And then finally on MSP and VSM you talked about strong double digit growth. Could you actually give us the number that those parts of your businesses grew by? Thank you.

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

On the MSP it's a strong double-digit growth, so it's largely in the teens, the growth that we're having there.

On the current buyback, indeed, we have done a lot since January 1. We are now three-quarters down the road. We first want to complete this program before we talk about any new potential initiative. You have seen we have defined now a floor also for the dividend. And we want to continue this shareholder-friendly approach. But before we -- I think it's only appropriate that we first finish the first program. And again, we made a lot of progress in the first quarter. But let's finish it now first before we talk about new initiatives.

Toby Reeks - *BofA Merrill Lynch - Analyst*

Great, thank you.

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

And then on the positive trends into Q2, Dominik?

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

What was the exact question regarding -- I was not fully understanding the question, the second question which you had?

Toby Reeks - *BofA Merrill Lynch - Analyst*

They're starting to see -- or at least Randstad were talking about starting to advertise into certain markets, or at least increase the advertising in certain markets. And I think part of that is an expectation that you're getting towards an inflection point in terms of growth. Are you guys starting to market more heavily? I know you will be in France anyway, because of the rebranding, but are there any advertising programs that are in excess of that at the moment?

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

No, not at the moment. We don't plan for anything for increased marketing costs or whatever. We have our programs in place. You have seen that we have been very active last week with our Sthree day. We have our 80 jobs Around the World. So we are doing a lot also on the social side. But, other than that, you shouldn't expect any increased marketing expenses from our side.

Toby Reeks - *BofA Merrill Lynch - Analyst*

Okay, thank you very much.

Operator

Nicholas de la Grense, JPMorgan.

Nicholas de la Grense - *JPMorgan - Analyst*

I was wondering if you could just elaborate a little bit more on the impact from the tax credit in France. How much of the improvement in the Q1 margin was a result of the tax credit directly? And also, will there be a negative working capital impact from that tax credit? That was something that Randstad have been talking about on their call last week.

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

If you, first of all, look to the Q1 cash flow there cannot be a negative impact on the overall cash flow, because, first, you recognize the profit, which is positive for the cash flow, and then you recognize, as the same amount, the receivable. So net, it's the same. Of course, going forward, it has the impact, because the payment of this money we get only with the delay of three years.

And then again to the -- what was exactly impact; I think I gave a pretty good guidance, because this is an ongoing program; it's not a one off. So it becomes very normal operational income this part. And what I said was if you compare Q4 where our EBITA margin in France was down 160 basis points with Q1 where it's up 20 basis points year over year, and seeing that overall trading conditions in France have not really changed, the question is now how this kind of from minus 180 basis points, to plus 20 basis point, how does it come? And it's basically two main drivers, more or less equal. This is the cost saving from the restructuring. And this is the tax credit in France.

Nicholas de la Grense - *JPMorgan - Analyst*

Understood, thanks. And just one more thing on the tax credit, you've indicated that the structure of the tax credit means that you will be able to retain the benefit. I'm just wondering is there any risk that clients come to expect to share in the cost reductions, and that is has an impact on pricing in that market?

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

You will see clearly that from the explanation that Dominik gave, and we just want to give a range here, but you will see clearly that we are not taking the full benefit. We know we have to reinvest part of that money, whether it's in R&D; whether it's in IT; whether it's in training. And it's also allowed to strengthen equity with this. But, of course, we absolutely want to be on the careful side here. And, so far, we have had only one demand that we have refused. You have to understand that our customers are in a similar situation for their fixed employees.

And it's our aim -- this is our money. We are the employer. It's our aim to keep as much as possible. But, again, we are also you will see -- from the explanation that Dominik gave, how much we recognize in the P&L, that we are also on the careful side here. But partly it's also because we have an agreement with the Workers' Council to reinvest some of this money into IT, into some R&D, and mainly also into training for our people.

Nicholas de la Grense - *JPMorgan - Analyst*

Understood, thanks very much.

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

Thank you. Next question?

Operator

Olivier Lebrun, Natixis.

Olivier Lebrun - *Natixis - Analyst*

Two questions about Japan. Is underperformance versus the local market only due to the completion of outsourcing project, or also to a better selection of clients; and when the negative comparison basis will end?

And second question about Germany, could you quantify the inflation impact of equal pay in Germany in Q1? And do you feel any slowdown due to the salary increase?

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

I will take your question on Japan, and Dominik will take your question on Germany.

On Japan, indeed, the negative impact has mainly to do with the completion of the outsourcing contracts, which happened at the end of Q1 last year, and in the course of Q2. We're still going to have a negative, I would say, high single-digit decline in the second quarter, but it will ease. And we will return to -- with this, we will return to normalized profitability in Japan.

Despite our decline of 21%, 4.5% I think is still good; certainly, if you've got a return on sales, if you compare it to other players in the market. It's true that in Japanese, but you know this from the past, we are for more than 90% exposed to white collar business and to industries, which don't benefit directly, not immediately from the more aggressive policy now on exports and the weaker yen. So, companies that are more exposed to blue collar will, in terms of volume, have a more positive effect from this more immediate I would say. Whereas we, being on the white collar, we will always benefit from this, because that's always later cyclical, we will only benefit from this at a later stage.

So the decline rate in the second quarter will ease, as I said to you, somewhere in a high single-digit number it would be. And we would return to a better profitability, as we have always had in Japan, also in the second quarter.

On Germany, the inflation, Dominik?

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

If you look to the bill rate inflation in Q1, it's around 8%, which is a function of three items. First of all, there's underlying -- no doubt, there's underlying wage inflation in Germany also for the temping industry. On top of that, we have the so-called surpluses, which are kicking in; it's temps staying to a certain time, longer pipeline for temps who were not before an equity.

And the third reason is that the more Professional Staffing business, branded DIS, is doing, in growth, better than the more industrial-related business, and they're growing too. So there is a positive mix effect because, of course, finance people, engineers have a materially higher bill and pay rate.

Olivier Lebrun - *Natixis - Analyst*

Okay, thank you.

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

Okay, next question please.

Operator

(Operator Instructions). William Vanderpump, UBS.

William Vanderpump - *UBS - Analyst*

Sorry, just one more from me following up on my second question. You've previously said your threshold for flat margins was about minus 5% organic at a Group level. Does the revenue trend that you're talking about at the moment point to something a bit better than that for the full year? So, presumably, you're feeling pretty comfortable about the consensus you sent round of margins plus 20 to 30 basis points for FY '13?

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

I don't know which -- which numbers you are talking about. I will not comment now on the full-year consensus.

William Vanderpump - *UBS - Analyst*

Yes.

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

But we have to see how this year works out. Last year, we were in the situation where it was pretty clear that the economy gets weaker and we, basically, have done the statement, which was right; that up to a sales decline of 5% last year we are able to protect margin, more or less, which was true.

I just ask Karin for the consensus. The consensus has grown only by 4.1% for the whole year.

William Vanderpump - *UBS - Analyst*

Right.

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

That would be up to 10 basis points versus last year.

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

Would be [around] 10 basis points, yes.

William Vanderpump - *UBS - Analyst*

Okay, so up -- so, basically, similar sort of guidance you've got improving organic growth trends, I think, is in consensus and improving margins? You've not restated that outlook?

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

No, no.

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

Not at all, no.

William Vanderpump - *UBS - Analyst*

Okay, fine, all right. Thanks.

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

Thank you.

Karin Selfors-Thomann

Operator

Michael Foeth, Bank Vontobel.

Michael Foeth - *Bank Vontobel AG - Analyst*

Just one question from my side. I was wondering you're talking about social security payment impact on the cash flow in the first quarter. But I can't see the details in the cash flow statement. Can you quantify that impact?

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

If you look at the cash flow statement, what the impact on net working capital, there were two items in the net working capital; one on the receivables side, the other one on the -- basically, accrual side, which you have to consider. One is that we had a certain payment of our social security for prior year. And the other was that the collection towards the end of March was a little bit lower than normal, given the Easter break or Easter holidays. If you would exclude these two items, our cash flow would be more or less down like the earnings, because, of course, the earnings went also down.

Michael Foeth - *Bank Vontobel AG - Analyst*

Sure, okay. But I assume that the receivables situation will reverse probably, but not the payment of the social security for the past year. So that's why I'm trying to find out what that impact did that --?

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

That is up roughly.

Michael Foeth - *Bank Vontobel AG - Analyst*

Okay, thank you.

Operator

Tom Sykes, Deutsche Bank.

Tom Sykes - *Deutsche Bank Research - Analyst*

It's just a quick follow-up as well, if I could do. Just on -- you've made some comments or Reuters on Italy, Spain and Portugal. And I was just wondering if you could make some comments on your businesses in those countries, because, obviously, they've been caught in the eye of some of the storm in Europe.

And then also, just on the Autos business, in general, what you're seeing in terms of the new orders from your larger Autos companies? Thank you.

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

If we look, first, to these countries, which were, of course, last year, also for us hard hit, [roughly] speaking, in all these countries, a kind of stabilization, you see that the decline rates in these countries are somewhat improving. If you look to Italy, for example, we had in Q1 adjusted for trading days, minus 4%; and in Q4 last year, it was still minus 9%. We also see in Italy, some benefit from some, let's say, kind of liberalization of the market, which is a little bit helpful there.

And also in Iberia, to a less extent, but we have -- if you look to Q4, where we adjusted for trading days down minus 13%. And in this quarter we were down adjusted for trading days minus 5%. So you see that things somewhat they are getting better.

Also, if we look to the kind of trend, to the long-term trend analysis, both countries are best on the normal trend. And of course, last year, they were heavily underperforming. That was the reason they had also in Q4 a double-digit decline.

Looking to the Automotive business, our Automotive business in Germany shows the normal seasonal pattern; so decline rates are pretty similar, since the beginning of the year. So just the normal season pattern, and we have no concern there. In the US, Automotive is stable; it's flat. In France, it's heavily down.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay. Just on Italy and Iberia are you -- you seem to be alluding, or Patrick seemed to be alluding on the comments on Reuters, that you're actually seeing a bit of growth or small scale investment at low levels there. Is that something -- would you expect those to be some of the earliest countries to come back into growth now?

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

I would not say that these companies will be soon back into growth, Tom. But like Dominik outlined, the decline rates have really eased, and we see somewhat more activity, especially in manufacturing. The export, if you talk to logistics companies the exports from these countries is increasing. Of course, import is not, because consumption's still very much under pressure, but the exports from as well Italy, as Spain, as Portugal, has increased.

You have to see that these countries have become -- with all the salary cuts have become a lot more competitive. So there is somewhat additional investment activity in those countries, but it's still very fragile, but at least it's better than it was. So we are seeing the positive signs. We see it also in our numbers and we are early. But now to say that these countries would turn into a positive into the second quarter or even into the next six months, this is really too optimistic, but the decline rates will certainly further ease.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay, great. Thank you.

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

Thank you, Tom. One last question, maybe?

Operator

Olivier Lebrun, Natixis.

Olivier Lebrun - *Natixis - Analyst*

Yes a follow-up question about your EBITA margin target. Have you quantified the rate of revenue growth in organic terms, which is necessary in 2014 and 2015 to achieve this target, please?

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

I said this several times to the investor and to the colleagues in -- after taking that commitment for 2015, of course, we need top line growth. And we have had top line growth in 2012. We have had top line growth in 2011 -- sorry, 2010 and 2011 of 12% respectively and 10% respectively. And 2011, towards the end of the year it was already going down.

We need high end single-digit top line growth two years in a row, where we start from a gross margin level. We don't need a lot of increase. We always said we need something around 18.2%/18.3%. We were at 17.9% on average last year. We are now at 18% in the first quarter, so we don't have to be a lot more aggressive on that line in order to achieve.

And you have also see in 2010 and 2011 when we had this kind of growth that we have always done it with very good leverage and that we didn't have to increase our cost base. And the example -- these examples that I have given is if we are starting from EUR20 billion and we grow 10%, that's an additional EUR2 billion. With 18% gross margin, I only take 18%, that's EUR360 million. Our cost base is now lower than EUR2.8 billion, but if that grows 5%, that's EUR140 million. It would mean that EUR220 million falls to the bottom line and that would be 100 basis points.

So you see, we can really achieve it. We have proven in 2010 and 2011 that we have that kind of leverage, but, of course, we need the top line growth. And we are now positive on the outlook, because of the economical indicators, because of being back to the long-term trend and what we are seeing in our business. So we think we can -- if we have this kind of growth in 2014, and then subsequently in 2015 a bit of a lower growth, but still high in single digit, we will be there.

Olivier Lebrun - *Natixis - Analyst*

Okay. Thank you very much.

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

Thank you. So this concludes our call for today for the first quarter. Thank you for your interest in our Company and thank you for attending the call. And we speak each other again on August 8, when we announce our second quarter results.

Thank you and have a good day.

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

Thank you.

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

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.