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ADEN.VX - Q3 2013 Adecco SA Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, good morning. Welcome to the Adecco Q3 results 2013 analyst conference call.

I'm Goran, the Chorus Call operator. (Operator Instructions). The conference is being recorded. (Operator Instructions). The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Mr. David Hancock, 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, gentlemen.

David Hancock - *Adecco S.A. - Head of IR*

Thank you. Good morning, and welcome to Adecco's third quarter 2013 results conference call. Patrick De Maeseneire, Group CEO; and Dominik de Daniel, Group CFO, will lead you through the presentation today, followed by a Q&A session.

Before we start, please have a quick look at the disclaimer regarding forward-looking statements in this presentation.

So let me give you a quick overview of today's agenda. Patrick will present the operational highlights; then, Dominik will review the financials; and finally, Patrick will make some comments on the outlook; we will then open the lines for your questions.

With that, Patrick, I hand over to you.

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

Thank you, David. Good morning, ladies and gentlemen. Welcome to our Q3 results conference call. First, the highlights.

Adecco delivered a strong performance in the third quarter. We had revenues of EUR5 billion, flat in constant currency. I'll expand on this by region, in a moment.

The gross margin in Q3 was 18.7%, up 80 basis points year on year. Costs continued to be well controlled. SG&A, in constant currency and before restructuring costs, was down 2% year on year, and down 1% sequentially.

This resulted in EBITA, before restructuring costs, of EUR276 million, and an EBITA margin of 5.5%. Reassessment of the French CICE resulted in an approximately 50 basis points benefit to Group EBITA margin in Q3 2013, relating to prior periods.

In the quarter, net income grew by 61%, and basic EPS by 71%, helped by the impact of the share buyback programs. In the quarter, we completed our EUR400 million share buyback program, and launched a new program of up to EUR250 million.

In September, revenues were down 1%. And in October, the Group returned to growth, in constant currency and adjusted for trading days.

Let's have a look at the revenue development by region in constant currency. In North America, revenues held up well, with 3% growth year on year.

In Europe, revenues were down 1% in the quarter. We are now seeing clearly improving trends in the region, with many countries returning to growth, such as Italy with 8%; Iberia with 4% growth; and Germany and Australia also with 4%.

The rest of the world was up 1%. In Japan, the rate of revenue decline is further to 5% in the quarter. Australia and New Zealand remains difficult, with a decline of 10%. By contrast, the emerging markets revenues grew 8%, with a further acceleration in Eastern Europe.

We go to our main markets now. In France, revenues were EUR1.3 billion, down 5% year on year. This is an improvement, compared to the double-digit decline in the first half. And the gap to the market also narrowed further.

From an industry perspective, we saw a significant reduction in the rate of decline in some of our largest cyclical sectors, such as construction and automotive. These had been down heavily in the first half of the year.

Our perm revenues were down 15% in the quarter.

As we have previously indicated, we are taking additional restructuring actions in 2013, to optimize the cost base. In the quarter under review, we incurred EUR1 million restructuring costs.

The EBITA margin, before restructuring costs, was 7.4%, compared to 4.1% in the same period last year. The Q3 EBITA margin was positively impacted by a reassessment of the French CICE, which resulted in approximately 190 basis points positive impact on the French EBITA margin related to prior periods.

Revenues in September were down 6%, adjusted for trading days. And we saw a further improvement in October.

In North America, revenues were up 3% in constant currency, to EUR950 million. Revenues in general staffing were up 1%, and in professional staffing, were up 3% in constant currency.

Within general staffing, we saw an acceleration in the early cyclical industrial business, with growth of 7% in Q3, after 3% in Q2; driven by good demand from the automotive and chemical industries.

The office business softened slightly, down 5% in Q3 compared to down 3% in Q2, due to less demand in the financial services sector.

Within professional staffing, IT and engineering and technical are our two largest businesses. The North American IT business grew 5% year on year in constant currency, driven by good growth in the US of 8%. In engineering and technical, revenues were up 2%.

In perm, we continued to deliver a very strong performance with revenue growth accelerating to 20% in constant currency.

The EBITA margin in the quarter was 4.4%, flat year on year. Q3 included an asset write-down which negatively impacted the EBITA margin by 30 basis points.

In September, revenues were up 2% in constant currency and adjusted for trading days.

Revenues in the UK and Ireland amounted to EUR481 million, up 1% in constant currency. This was against the tough comparison as the prior year benefited from the Olympic Games. Excluding the Olympics, revenue growth was 7%.

Perm revenues were down 6% on a constant currency basis.

The EBITA margin was 2.2%, compared to 0.7% in Q3 2012.

Revenues in September were up 2% in constant currency and adjusted for trading days, or up 7% excluding the effect of the Olympics.

In Germany and Austria, revenues were up 4%. Growth in automotives and aerospace was slightly stronger than this 4%, and manufacturing returned to good growth.

EBITA was EUR39 million giving an EBITA margin of 9%, up 50 basis points compared to the adjusted margin in Q3 2012.

In September, revenues were up 7%, adjusted for trading days, primarily driven by a pickup in general staffing.

In Japan, revenues were down 5% in constant currency, a further improvement from the 9% decline in Q2. Our business in Japan is focused on clerical, which is typically latest to benefit from a pickup in economic activity. That said, our early cyclical engineering business did see a clear acceleration during the quarter.

Despite the revenue decline, profitability improved further thanks to price discipline and cost reductions, and also a good perm growth of 8%.

As a result, the EBITA margin was 6.5%, up 40 basis points compared to Q3 last year.

In September, revenues were down 6% in constant currency and adjusted for trading days.

Finally, we turn to Adecco's development by business line on a constant currency basis. In Q3 2013, revenues in general staffing were flat compared to minus 4% in Q2. This improvement was driven by the industrial business, up 1% after six quarters of organic decline. The office business was down 3%.

Revenues in professional staffing grew by 2% in Q3, driven by growth in IT and finance and legal. Our solutions business increased by 10%. Revenues at Lee Hecht Harrison, our outplacement business, were up 4% continuing to outperform the market.

Revenues growth in MSP and VMS was again strongly double digit, with a further acceleration in the growth rate in Q3 compared to Q2.

With this, I would like to hand over to Dominik to 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 overview of the P&L. In Q3 2013, we had revenues of EUR5 billion, down 5% on a reported basis, but flat in constant currency.

The gross margin was 18.7% in Q3, up by 80 basis points year on year, positively impacted by reassessment of the French CICE relating to prior periods.

SG&A was down 4% in constant currency, compared to the prior year. SG&A was 2% lower year on year in constant currency and excluding restructuring costs. Sequentially, the cost base was down 1% in constant currency and when excluding restructuring costs, primarily due to seasonality.

EBITA was EUR273 million. Excluding restructuring costs, EBITA was EUR276 million.

The margin was 5.5% in Q3 2013, excluding restructuring costs. Reassessment of the French CICE, due to additional experience and better insight, led to a change in estimates which resulted in approx. 50 basis points benefit to the Group EBITA margin in Q3 2013 relating to prior periods.

Net income in the quarter under review was EUR191 million, up 61% year on year. Basic EPS was up 71%, helped by the impact of the share buyback programs.

Let's have a look at the year-on-year gross margin evolution. The Group's gross margin was 18.7% in Q3 2013, up 80 basis points year on year.

Temporary staffing had a 75 basis points positive impact on the gross margin in the quarter, of which approx. 50 basis points was due to the reassessment of the French CICE relating to prior periods.

The outplacement business had a positive impact of 5 basis points. Outplacements and other activity had a neutral effect on the gross margin. Perm revenues were flat in constant currency.

Now let me discuss how our cost base developed in the third quarter this year. We continue to monitor revenue developments closely and manage the cost base accordingly.

SG&A in Q3 was down 2% compared to the same quarter last year in constant currency and before restructuring costs.

FTEs were down 5% year on year. The French network also decreased by 7% compared to the prior year. Our Q3 2013 results included EUR3 million restructuring costs, compared to EUR22 million in the same period last year.

Sequentially, our cost base was down 1% in constant currency and before restructuring costs, primarily due to seasonality.

SG&A for the Group in the fourth quarter this year is expected to be slightly above Q3 2013 in constant currency and before restructuring costs, which is a function of seasonality, and some limited investments into the business.

Moving onto the balance sheet. Our cash position was EUR816 million at the end of the quarter. DSO was 54 days in Q3 2013, 1 day less than in Q3 2012.

Goodwill and intangible assets amounted to EUR4 billion at the end of September, and Adecco's shareholders' equity was EUR3.4 billion.

In June 2012, we launched a share buyback program of up to EUR400 million on the second trading line with the aim of subsequently cancelling the shares and reducing the share capital. This program was completed in September and, in total, we repurchased 9.7 million shares, equal to 5.1% of the share capital. After completion of the share buyback program, we launched a new program of up to EUR250 million.

This will also be executed on a second trading line with the aim of subsequently canceling the shares.

Turning to the cash flow statement. In the first nine months of 2013, cash flow from operating activity was EUR270 million, compared to EUR284 million in the same period last year.

Q3 2013 benefited from a strong working capital performance, driven by the favorable timing of the quarter end cut-off and lower spend on restructuring.

In the first nine months 2013, the Group invested EUR53 million in CapEx and paid EUR276 million related to the purchase of own shares. The dividend payments in May this year was EUR266 million.

Net debt at the end of September 2013 was EUR1.3 billion, compared to EUR1.5 billion at end of June. In July, we issued a EUR400 million Eurobond, with a coupon of 2.75% due in November 2019. The proceeds will be used for general corporate purposes, including the refinancing of the existing five-year notes due in April 2014.

Our financial guidance for the full-year 2013 is as follows. CapEx for the year is expected to be around EUR90 million. Interest expenses, excluding interest income, are expected to be around EUR80 million for 2013. We anticipate corporate costs of approx EUR95 million and amortization of intangible assets is expected at EUR45 million for the full year. The underlying tax rate for Q4 is expected to be around 30%.

As we have said, to further optimize the cost base, we expect to invest a total of EUR30 million in 2013, of which we have incurred EUR16 million so far this year.

With this, I hand back to Patrick.

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

Thank you, Dominik. Now let me finish with the outlook for our business. With most European economies coming out of the recession, we expect demand for flexible labor to increase.

We are especially encouraged to see that the early cyclical industrial business grew in Q3 after six quarters of decline.

We have returned to growth in many countries in Europe and the pickup in Italy, Germany and Spain is promising. The rate of revenue decline has reduced further in France.

North America continues to perform well and the emerging markets, again, delivered high-single digit growth in constant currency, with a further acceleration in Eastern Europe.

Against these positive trends, conditions in Australia and New Zealand continue to be challenging.

We exited the quarter with revenues in September down 1% in constant currency and adjusted for trading days. And in October, the Group returned to growth.

We continue to be very focused on reaching our EBITA margin target of above 5.5% and given the recent trends and more favorable economic conditions expected going forward, we are 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

We will now begin the Q&A session. (Operator Instructions). Laurent Brunelle, Exane.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Three questions if I may. The first one, the CICE boost; can you confirm that you have written 70% of the growth benefits as with 50% previously?

And can you maybe give guidance for Q4 in terms of impact?

Second, can you explain me why there was a slight deterioration in North America? Is it only a matter of tougher comps?

And lastly, can you maybe comment a bit about your French performance? Seeing that you are now growing in line with the markets or at least you've been able to narrow the gap, what's your view on it, please, and can you comment by segments?

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

Laurent, I will take your second question on the US. I propose that Dominik takes your first question on the CICE on the 70% and the 50% before that you asked; and then I also will cover the -- how we see the French markets going forward.

On the US, as I said during the presentation, we have written off some older IT systems and we didn't include that in the restructuring, so taking that into account, we have increased our profitability with 30 basis points and this for a sales growth of 3%.

You might recall that we had a stronger leverage in the second quarter; we also expect a somewhat stronger leverage in the fourth quarter again. This quarter, fair to say that we also had some exceptional healthcare costs in our healthcare business and we also see some price pressure in Canada.

As you have seen, we continue to grow in IT; it's 5% for North America, it's 8% for the US, but if we look at the mix of the customers, we see that now a bigger proportion is coming from large accounts than before, where the margins are somewhat lower.

So this explains our evolution on the bottom line, but again, for 3% sales increase, we have a 30 basis points increase, which is not as good as it was in Q2, but is okay and we expect it to be better in Q4.

Dominik, can you take the question on the CICE?

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

If we look to the CICE situation, we indicated after the second quarter there's a likelihood that we have -- there's a likelihood that maybe after Q3, reassessing the situation, that we show more of the CICE in the P&L and now we're showing basically the vast majority of CICE also as a profit. So it's definitely more than 70%; it's not everything, but it's definitely more than 70%, it's the vast majority. And this is also run rate going forward into Q4.

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

Coming back to your third question on what we expect for the French market. You've seen in the French market we were down in the first quarter, 17%; in the second, 12%; and now minus, 5%, so it's gradually improving.

We don't expect now the French market to be back to growth in the fourth quarter; we rather expect this in the course of the first half next year.

If we look at the sectors now for this quarter, most of the sectors are still down. Sequentially, what is good is that construction improved. Automotive not -- also sequentially didn't improve, but is going somewhat better. Logistics improved sequentially and manufacturing improved substantially, so that's actually a good sign that the industrial business is also improving there in the French market.

So again, we expect to be back to growth in the French market in the course of the first half next year.

Is that okay, Laurent?

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Yes, great. Thanks. Just on the CICE, Dominik, you said that you have retained more than 70%?

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

I did. The vast majority and vast majority is more than 70%, which we show in the P&L of the gross CICE, yes.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay. Okay, great. Thank you.

Operator

Tom Sykes, Deutsche Bank.

Tom Sykes - *Deutsche Bank Research - Analyst*

Sorry, just to ask another question on the CICE; can I just be clear that the movement from 50 to the vast majority now, you've only included in the 50 basis points that which you would have accrued in Q1 and Q2, right. So if you're now accruing the vast majority in Q3, that wouldn't have been in the 50 basis points.

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

That's absolutely correct. The 50 basis points is relating to prior periods. Therefore, and if you talk about the cash up for Q3, this isn't the run rate, but this is not in the 50 basis points. The 50 basis points is everything until first half.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay. And would you be able to put a euro millions number on that extra benefit between 50 and where you are now in Q3, please?

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

It's a high single-digit million amount.

Tom Sykes - *Deutsche Bank Research - Analyst*

High single digit, thank you. Because then your temp gross margin is up 25 basis points year on year, but you're -- if we put the 50 basis points to aside one second, that's the same as Q2. But you're accruing a higher percentage in your CICE.

So could you tell me what the difference is? And I appreciate there may be some seasonality or geographic mix, but are there any countries where you're struggling a little on price?

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

There is definitely one thing. If you recall last year in Q3, we had this very high profitability in Switzerland, so we had a very high profitability last year in Switzerland because we have then insurance benefit and we recognized the majority of it in Q3 last year and changed the policy that after what we look to it every quarter, so the last year temp margin was somewhat inflated.

Now it's also fair to say, if we look for example to France, it works very well, otherwise, we would not show the vast majority of these in our P&L. However, in the underlying business, we have sometimes upside pressure from increases in indirect labor costs.

If we pass this onto our clients, it's sometimes a bit challenging to pass on indirect labor costs because they basically say, hey, you have the CICE, you don't -- we understand it's not allowed to share, but the indirect labor cost going up, so we will not pay more for this increase. So this is a dilutive effect in this respect to the (inaudible).

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay, so ex-CICE --

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

But I think you have to see overall our temp margin is up. Of course, this is also including CICE.

Tom Sykes - *Deutsche Bank Research - Analyst*

Right, okay. And is there an SG&A benefit from CICE? I know that it's not as big as maybe the gross margin benefit, but I'm assuming that you took historic SG&A -- will you take historic SG&A benefit as well?

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

There is no catch-up in this respect. Why? Because at the beginning of the year, it was very unclear how to treat this, what are the conditions for the temps, but not for the internal people. So the SG&A benefit is shown 100% since the beginning of the year; there is no change in this respect.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay. And then just finally on your clerical businesses and your IT businesses in the US, you're obviously down, and I'm assuming that there's probably a mortgage effect on your clerical business in the US. But you're now down probably to below or at 2011 levels in your US clerical business. So what's the outlook for growth there?

And also, just on your US IT business, could you maybe say what your headcount was up year on year? Because I'm just wondering whether your gross profit or your sales per headcount are actually increasing in your US IT business please.

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

But if we look first, of course, at the clerical business, you're absolutely right; we are more or less on the level of 2011 in the clerical business. And it is currently a bit weaker; it went from minus 3% to minus 5%.

I'm not thinking it will recover that quickly because the main reason for this is that financial services in the US is vastly weakened into the quarter and I'm not seeing in this area a pickup. And, of course, this is the biggest part of our clerical business is for financial services.

That said, there is the clearly better trend in the industrial business. There, we are up from plus 3% to plus 7%, and also, a good trend into October, so we rather see the industrial going up and in last quarter, basically offsetting the performance -- let the clerical business offset this performance in this respect.

When we look to our IT business, the headcount in the US business is increasing, mid-single digit. However, growth is stronger. So we have a higher growth, so the sales per FTE is basically up, but what we have seen in the last, I would say, 1.5 years since we gained market share, in the beginning, it was a lot because we were able to go out and broaden the customer base, and now we're seeing basically up -- as I indicated, also after Q2, that the more large account coming back with demand, and in the large accounts, gross margin is a bit lower, so the mix goes more to large accounts in this respect. But, of course PBT is still up.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay, thank you. And are you -- sorry, final quick one. Are you actually going to give the October growth figure at all?

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

It's low-single digit.

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

It's low-single digit, yes.

Tom Sykes - *Deutsche Bank Research - Analyst*

Low-single digit, as in higher than 1%? Or --?

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

If it would be 1%, we would say 1%, but it's low-single digit.

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

Low-single digit is far higher than 1%, yes.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay, great. All right. Thank you very much. Thank you.

Operator

Hans Pluijgers, Kepler Cheuvreux.

Hans Pluijgers - *Kepler Cheuvreux - Analyst*

First, looking at Japan, there you saw a clear improvement. But how do you see, let's say, the prospects there, because clearly, you are more focused on clerical. Do you expect to return to growth again as of next year? Also, as the big contracts you had last year, are they -- the impact has now filtered out.

And then, again, coming back on the CICE, sorry for that, but you indicated that the vast majority now you have included, but is it not logical that at the end of the year in principle, you should have included everything with the exception of [costs apart], you will have to use for additional training, so is it not logical to expect at least some small additional impact for reassessment of the first few quarters?

And lastly, looking at your investments and your cost, you are quite focused still on cost. You see also clearly a decline in the premises and everything, but you indicate still in the CapEx for this year for EUR90 million. But that means that in Q4, you would still have then quite a significant uptick in CapEx. Should we expect that for Q4? Is that already guiding for it as of now that CapEx should increase again?

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

Hans, I will take your question on Japan and then Dominik will take your question on the CICE for Q4 and the investments and costs.

On Japan, you've seen we are down minus 5% in the quarter. September was minus 6%, but we had a trading days adjustment of 6%, so difficult to adjust September. We see that it's further improving into October. So Q4 will clearly be better; also, because we signed up some new outsourcing projects in the Japanese market.

Now you know our focus is clearly there on profitability and I think we have a strong profitability, always had in that market. We are up again to 6.5% despite the sales decline of 5%, also helped by our professional staffing business, by our engineering business.

Now, whether we're going to return to growth in the Q4 or whether it is going to be in Q1, it's going to be in the course of Q4 or Q1 that I have to say. I'd rather be careful but Q4 will be, clearly, better than Q3.

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

Coming back to the CICE and the CapEx. Will we assess the situation and based on our insight and knowledge, we believe the vast majority we can show in the P&L and if we would have a different view, then we should have shown now even more.

That does not mean that there may be here and there some adjustment into Q4 when we have even a better picture, but it is not material, really not; the real change was now in the Q3.

Secondly, we have today already more training cost. We're investing more in IT, but this is not booked in a liability in the balance sheet; this is in our P&L.

So it's not that we accrue now investments into training. We spent the money into training and show it when we spend it. So, therefore, you cannot look any more to see the spend alone, because we had one CICE, but we have also underlying investment in IT, in training also related to this program.

Looking to the CapEx; the CapEx, you're absolutely right. There will be a CapEx sequential strong increase into CapEx in Q4. And this is fully in line with our IT strategy, what we also discussed in great detail at the Investor Days last year that after we developed the different prototypes that we start to invest into the solutions and we are basically now in this space. Therefore, CapEx will increase sequentially into Q4.

Now, I am not changing the CapEx guidance every quarter because of EUR5 million. It could be that we come a little bit lower in the EUR90 million, yes, but there is definitely a sequential increase in CapEx.

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

Is that okay, Hans?

Hans Pluijgers - *Kepler Cheuvreux - Analyst*

Yes. One more follow-up on that, on the CapEx. Is that then what we also could see going into Q1 or Q2 of next year some additional investment would you say, was for the IT systems?

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

That's definitely correct. This is not only a Q4 event. It is fair to say if you look this year to the CapEx level and if you assume we maybe come a little bit lower than EUR90 million, it was not even a lot increasing because, of course, we pushed also a lot back on development of local systems, because we said we invest now into global systems. So -- and therefore, we had this rather low CapEx up to the first nine months and this will now increase, especially in Q4, but will continue then on a higher level, I would say at least into the first half next year.

Hans Pluijgers - *Kepler Cheuvreux - Analyst*

Yes ,thanks.

Operator

Nicholas De La Grense, BofA Merrill Lynch.

Nicholas De La Grense - *BofA Merrill Lynch - Analyst*

Two questions please. Sorry to labor the CICE point, but just if you could clarify one more thing for me. It looks like if you apply the Q3 changes to the H1 retention rate, there was about a 200 basis point benefit from CICE in H1 and the benefit in Q3 looks more like 140 basis points.

Is the delta there all related to the indirect labor cost increases that you mentioned in response to Tom's question? And should we assume, therefore, going forward that the CICE benefit will be closer to the 140 basis point benefit from Q3, rather than the H1 benefit of 200 basis points?

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

Basically, the French margin was impacted by 198 points from the kind of catch-up, I would say. So what is, of course, the case, is that we have going throughout the year, basically also more discussions about the indirect labor cost increases and if we have, for example, next year, again, indirect labor costs will go up next year because of retirement increases, because of this allowance of deducting transportation and stuff like this.

We will always have a discussion; that does not mean that we anyhow increase it. But what we are saying, in times where we have the CICE, it's a bit more challenging.

But that also said, at the same time, we also invested more in IT and we invested also more in training. So we got the CICE at the beginning of Q1. At the time, nobody was really understanding the rules, so we have not invested in training. But now things are also increasing in this respect.

So you should look -- basically, take out this 50 basis points for the Group and take out on the French level and then you have a quite good margin. This shows the majority of the CICE effect, but it also shows some spending or some dilutive aspects, I would say.

Nicholas De La Grense - *BofA Merrill Lynch - Analyst*

Okay, understood. And just one other question, please. The restructuring costs, you're still talking about a total investment of EUR30 million in 2013. Given that the Q3 restructuring costs were somewhat lower than we might have expected, will all of that EUR30 million be realized in 2013 or may some of it slip into 2014?

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

No, no. The plan is very clear to spend it in Q4, and we always thought that the main spending will be in Q4. This is actually in line with the plan that we incur so far EUR16 million, so the remaining EUR14 million we have action plans and implementation plans to get them implemented in Q4 this year.

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

And half of this, Nicholas, will go to France and the other half will be partly for the US, partly for the UK and partly for Spain. Those are the main countries where we will spend this EUR14 million.

Nicholas De La Grense - *BofA Merrill Lynch - Analyst*

Perfect. Thank you very much, guys.

Operator

Konrad Zomer, ABN AMRO.

Konrad Zomer - *ABN AMRO - Analyst*

Three questions, the first one is on the automotives business in France. You mentioned that you haven't seen any signs of improvement, but can you tell us what that business is down year on year versus Q3 last year?

The second question is on your outlook, the 5.5% EBITA margin for the full-year 2015. Is that actually a margin you're targeting for the full year, or do you expect to get there on a Group level towards the end of 2015?

My last question is on price competitiveness. If you look at your margins, you've improved margins in pretty much every region, helped by cost savings obviously. Can you make a comment on the general level of price competitiveness in your key markets, please, and whether or not that has improved versus, for example, the start of the year? Thank you.

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

On the automotive, in France, it's actually -- at this moment, it's 6% of our business. It used to be 7%, and it's down 20% approximately year over year.

Then the 5.5% target is, of course, for the full-year 2015. So it's not for one quarter or not towards the end of 2015, it's really for the full year that we have to achieve this as a minimum.

Then on the price competitiveness?

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

If we look, we basically would say overall price inflation here and there, there are always pieces of -- where one or the other is more aggressive on certain accounts. We said it before, we currently see Canada a bit more price pressure.

We also lost because of pricing, two accounts in Australia. There it's -- you see this also on the big sales development there. But in general, I would say it's very rational, the pricing. It's not that we can say now there is a lot of price pressure.

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

I would say yes, indeed, Canada and Australia, those are -- Canada was pretty aggressive and Australia is. By the way, these two accounts that we have lost, these are not fully in the run rate for Q3, so this is going to have a more negative effect in the Q4. But also there, we have plans now to broaden our customer base because it cannot be that two accounts have such an impact, but it is the case.

Konrad Zomer - *ABN AMRO - Analyst*

Okay. So can I conclude that, for example, in France, helped by CICE, that the general level of price competitiveness has eased somewhat?

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

Yes, Konrad, we already said in November 2011 that we would give up market share for then at that moment do price increases. Like Dominik was saying, at this moment, with the CICE price increases, it is, of course, not possible and some costs are slightly increasing on the indirect labor cost.

But we see a rational behavior at the moment in France, at least from the major players. There is always one or the other small player disturbing, but that has always been the case. But let's say that all major players in the French market, and I'm meaning the top five major players, are behaving very rationally, led by us.

Konrad Zomer - *ABN AMRO - Analyst*

Thank you.

Operator

George Gregory, UBS.

George Gregory - *UBS - Analyst*

A few questions, if I may. Firstly, going back to CICE, I'm afraid. Dominik, if you could just clarify what the impact of CICE was, excluding the 190 basis points prior period write-back. I believe in prior quarters, it was 90 basis points or 100 basis points or thereabouts.

Secondly, on the subject of France, interested to get your thoughts, Patrick, on whether any clients are actively attempting to re-tender contracts, and what your response to that has been and what it will be going forward.

Finally, I think in the past, you have talked about your anticipation of 1% European GDP growth this year and roughly 1.5% next, and 2%, 2.5% for the US consistently and that being sufficient for you to generate the growth required to hit the 5.5%. Just keen to get any updates on your outlook for those numbers. Thanks.

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

Should I maybe take first the CICE and the GDP?

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

Yes.

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

Well, if we look to the CICE. We said in Q1 and Q2 the impact was on the bottom line, roughly 100 basis points. But you have to understand as we go and more throughout the year, you cannot look any more individually to CICE because it's diluted.

We're spending more not for IT, because we use CICE. We're spending more for training because of CICE. We have here and there changes to pass on, indirect labor costs. Said before, in a very rational market, I would have assumed it would be a no issue without CICE. So things are diluted and, therefore, I cannot tell you any more and it makes also no sense or it's not meaningful any more to look to CICE individually.

At least take the 190 basis points out, and then you see what is our French margin, thus showing the vast maturity of CICE in the P&L.

When we look to GDP growth, we not said 1% GDP growth for this year in Europe, we said for 2014, roughly 1%, and maybe 2015 a tick higher. I think these are still the GDP also consensus estimates for Europe.

We said in the US, it would be somewhat higher. And if I look to the GDP estimates of major banks, I think this is pretty still in line with our assumption.

And based on this, we have -- yes, we strongly believe that we can grow in such environment high-single digit, which is sufficient that we achieve our margin of 5.5% because we don't believe there is a lot of new jobs created, but there will be a lot of temps jobs created.

We have seen it also in 2010 and 2011. And even if you look now to the last quarter and you see that Italy is just ending the recession and we're growing already 8%, I think we have already the first proof that this assumption makes a lot of sense.

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

Then on the re-tendering in France, there is not more activity or more pressure, that there used to be. Like we already said, the pricing environment is pretty rational.

Of course, you can expect that CICE is now part of the margin. And you can expect that when new tenders are coming out, that one or the other might just lower the price a bit.

So far, we have not been forced or we have not shared anything. We wouldn't have recognized more in the third quarter if this would have been the case. And like we have said, we are not recognizing everything now in the P&L, but we're recognizing the majority.

We think that other major players have done the same thing, which is a clear indication that the market is rational, and that this, so far, has not been passed on.

Now, you know that the CICE next year will increase from 4% to 6%. And this is, of course, a substantial amount. And that this will be part of the total offering you can expect that. But by law, we are the employer, and this is our money, like it is the money also for our customers on these wages up to 2.5 times the minimum wage. So we will do whatever -- as the leader in the market, we will do whatever we can to keep this as much as we can on board.

George Gregory - *UBS - Analyst*

Just to clarify on recognition of the gross receivable, presumably, whether or not you would be sharing the benefit, you would still need to recognize as much as you think you will get, that you will keep, net of any investments.

The amount you provision should not, presumably, relate to how much you give back in price. So I would have thought that any re-tendering should not have an impact on the proportion you recognize. Or am I mistaken?

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

No, we get this tax credit from the government. And there is no doubt about it, because we fulfill the conditions. And for this we build an asset.

George Gregory - *UBS - Analyst*

Okay.

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

Yes, that's it.

Operator

Eugenie de Krug, Morgan Stanley.

Eugenie de Krug - *Morgan Stanley - Analyst*

I have one only. I wanted to know if your view on conversion rate from gross profit to EBIT's changed. And what do you expect going forward?

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

If we look to our plan for the years to come, we always said to achieve our margin target of 5.5%, we need growth. And based on the assumption that the economic environment is there to show high-single digit growth, this would then translate in stronger operation leverage. And, therefore, conversion rates should go up.

Eugenie de Krug - *Morgan Stanley - Analyst*

Okay. And could you repeat your guidance on SG&A for the fourth quarter as well?

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

For Q4?

Eugenie de Krug - *Morgan Stanley - Analyst*

Yes.

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

We have to -- this you have seen from Q2 into Q3. We went down 1%. And this is primarily seasonal, because if you look to the headcount, the headcount was stable. So we had a stable headcount sequentially and 1% less cost. And into Q4, we will have then basically from a seasonal point of view it comes back. And on top of that, we have some limited investments.

Eugenie de Krug - *Morgan Stanley - Analyst*

Okay. Thank you.

Operator

Alain Oberhuber, MainFirst Bank.

Alain Oberhuber - *MainFirst Bank AG - Analyst*

Two questions, the first is about Spain. We've seen an improvement in organic growth, but the EBIT margin has not accelerated. Here in Spain, there's a similar model than Italy; good organic growth, with a very strong increase in EBIT margin. So if you could you could tell us a little bit more about that model in Spain.

And the second question is about your September/October, numbers. So September was negative. October was up. What was the reason for it that September was down? Was it that you lost some of the contracts you just mentioned previously in Canada and Australia? Or was it really underlying growth which picked up significantly in October?

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

Well, if you see, Alain, the third quarter was flat and September down minus 1%. But we had quite an important trading day adjustment of 5%. So I think it's important to focus on October, which is up low-single digits. And we see the trend positive.

So I wouldn't focus too much on September, whether it's minus 1% or flat; with a better trading day adjustment, it's always very difficult to say that.

As far as Spain is concerned, on a comparable basis, we are up 20 basis points, which I think in that market for a growth of 4% is okay. So it's not that we don't have increased profitability. We are up 20 basis points compared to last year.

Alain Oberhuber - *MainFirst Bank AG - Analyst*

Thank you.

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

Do you want to add something, Dominik?

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

If you look to Spain, we definitely expect over there more operational leverage. Also, Patrick said before that part of the restructuring costs is not a lot. But it also goes to Spain because we still believe we can optimize more in the middle management there something in Q4 and that should give us, in the case as it recover, Spain would continue to recover a good base for operational leverage next year.

Alain Oberhuber - *MainFirst Bank AG - Analyst*

Thank you very much, gentlemen.

Operator

Olivier Lebrun, Natixis.

Olivier Lebrun - *Natixis - Analyst*

Questions on the UK please. Which level of operating margin do you think it is possible to reach in the UK in the scenario of growing market next year?

Second question's about tax rate; which rate do you expect for next year?

And the final question's about Germany. Could you specify the pricing impact on the Q3 revenues please?

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

Okay. I will take your question on the UK and Dominik will take your question on the tax rate and on Germany.

On the UK, we always said if -- when we reach our 5.5% target, the UK will, obviously, because of the nature of the market, be lower and you see that perm, although it has improved, but that perm is still down 6% and perm has to come back to improve the margins.

But it's not a market where you have to now expect a lot more than 3% in EBITA. We have EBITA 2.2%. We are already quite strong compared to other players in that market. It is a very fragmented and aggressive market and we absolutely want to achieve that higher margins as well.

Again, perm has to come back and it's still not growing. We expect it to grow in the future, but at this moment and also because of the financial services, it's still under pressure.

So -- but it's not a market where we -- if we achieve the 5.5%, we always said that this would be in line, that's one of the markets where it's going to be clearly below.

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

And regarding tax rate in Germany, the tax rate in -- we expect tax rate of around 30% for next quarter and, in general, I think this is a good assumption.

Also, going forward, I'm not seeing major changes for the time being would change this estimate of 30% and if we look to Germany, the kind of bill rate or wage inflation which is passed onto our clients is currently by around 1.7% for Germany.

Olivier Lebrun - *Natixis - Analyst*

For Q3?

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

For Q3, correct.

Olivier Lebrun - *Natixis - Analyst*

Okay, thank you.

Operator

Hans Pluijgers, Kepler Cheuvreux.

Hans Pluijgers - *Kepler Cheuvreux - Analyst*

Two if I may. First of all, on the growth rate for October. You were talking about up low-single digits, but is there also any impact from trading days? Could you maybe specify that a little bit more?

And then on France, of course, you have now the benefit from the CICE and in the past, of course, there was also a change in the business tax that moved from the EBIT to the tax rate. But in the past, the EBITA margin was about 4% in France in a good market.

What do you expect for France, going forward? What do you believe that EBITA margins are possible, going forward?

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

If we first of all look to the October, October is a pretty clean month because they are basically, I would say, in the big majority of the countries, there are no trading day adjustments.

September and August, there were huge trading day adjustments, but October is a really clean month, no trading day adjustment. And as I said, low-single digit, we see that all countries have, in October, with the exception of Australia, a better rate than seen in September and it's a bit more geared to the ones who have more industrial exposure, so which also indicates that industrial is really cyclical.

Looking to France, I think we have done a lot to restructure the business. We have not yet enjoyed the growth and, of course, our anticipation of the investments which we have done in France is that when the growth is coming back, that we also show good operational leverage.

Now, we know it's a very competitive market; it's an industrial-driven market, so it's not a market that we now say is a market where we have the highest margins in the midterm, but they should be better, based on the work which we have done.

And then depends also on the overall environment, but for the time being, we can only say it's very rational in France.

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

Is that okay, Hans?

Hans Pluijgers - *Kepler Cheuvreux - Analyst*

Yes. Yes, thank you.

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

Okay. Thank you and, ladies and gentlemen, thank you, all, for your interest in our company, for attending the call. If we don't meet in the upcoming roadshow, I already would like to wish you a very nice year and a fruitful start into the New Year.

And we talk to each other again on March 12, where we will announce our fourth-quarter results. Thank you again. Have a good day or a good evening.

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