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PRESENTATION

Operator

Ladies and gentlemen, good morning. Welcome to the Adecco Q2 results 2014 analysts conference call. I'm Selina, the Chorus Call operator. (Operator Instructions).

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; and Mr. Dominik de Daniel, CFO of the Adecco Group. Please go ahead gentlemen.

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

Thank you. Good morning and welcome to Adecco's second quarter 2014 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, followed by an overview of the country performances. 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. I will start with the highlights of the second quarter where my colleagues around the world delivered another good performance.

We had revenues of EUR5 billion; an increase of 5% in constant currencies. This is just below the 6% we had in Q1, but last quarter we had a small positive impact from trading days, while in Q2 the trading day effect was a small negative. Adjusted for this, the growth rate was the same in both quarters.

Gross profit grew by 6% in constant currency and the gross margin was 18.1%; up 20 basis points year on year.

Costs continued to be well controlled. SG&A in constant currency and excluding restructuring costs was up 3% year on year and down 1% sequentially.

This resulted in EBITDA excluding restructuring costs of EUR228 million; an increase of 18% in constant currency. The EBITDA margin excluding restructuring costs was 4.6%; up 50 basis points on the prior year.

Revenues were up 5% for June in constant currency and adjusted for trading days.

Let's have a look at the second quarter operating performance in more details. On this and the following slides I will give our growth rates in constant currency. I will start with the revenue development by region.

In Europe revenue growth was 5% in the quarter, with the slowdown from 7% in Q1 mainly coming from the trading day effect already mentioned. Within Europe the strongest growth rates continue to be in Iberia and in Italy.

In North America growth was solid; up 3% year on year after an increase of 2% in Q1. Both general and professional staffing grew at a similar rate.

The Rest of the World was up 5%. In Japan revenues were up 2% in the quarter. Australia and New Zealand remained difficult, however. Here our revenues declined by 18%, impacted by the contract losses that we have mentioned previously.

By contrast, emerging markets revenues grew 12%, with double-digit growth in Eastern Europe and high-single-digit growth in Latin America and in Asia.

Looking next at the revenue development from a business line perspective, we see that the industrial business continues to be the main driver of growth. This is normal at this stage of the cycle, as industrial, in general, picks up first in a recovery.

In Q2 2014 revenues in industrial grew by 8%.

In office, which typically picks up later than industrial, revenues were flat compared to the prior year.

In professional staffing we continued to see moderate growth. Revenue growth in the quarter was 2% with the slowdown from Q1 again reflecting the trading day effect.

Finally, within our solutions business line we saw continued strong double-digit revenue growth in our VMS, MSP and RPO businesses.

Let's also have a look at the second quarter revenue development by service line.

Temporary staffing is our largest service line. Growth here was 4% this quarter after 5% growth in Q1.

Revenues from permanent placements were up 8% in Q2; a further improvement from the 5% growth in the previous quarter. Within perm we saw good growth rates in North America, the UK and Ireland and the emerging markets.

Growth in outplacement slowed to 9% this quarter from 13% in Q1. This is in line with our expectations as the outplacement activity typically weakens as the economy recovers.

We now go through our main markets in more detail.

In France revenues were flat on the prior year. Growth in our industrial business line was offset by declines in office and in professional staffing.

From an industry perspective we saw modest growth in sectors, such as manufacturing and food, but there is no broad-based pickup in demand. In the construction sector activity weakened this quarter.

Perm revenues in France were up 5% this quarter compared to up 4% in Q1.

EBITA margin was strong at 6.1% compared to 4.1% excluding restructuring costs in the same period last year. This improvement was primarily driven by price discipline, the impact of CICE and helped by cost efficiencies.

Regarding CICE, please note that as from Q1 there was again a positive effect year on year in Q2. This is due to the increase in the rate of the credit from 4% to 6% and the positive impact of the reassessment we made in Q3 of last year of the CICE relating to prior periods and going forward.

In June revenues were up 1% adjusted for trading days.

We turn next to North America. Revenues were up 3%, with growth of 3% in general staffing and 2% in professional staff.

Within general staffing we saw good growth in the industrial business at 10%. This was driven by good demand from the logistics, chemicals and technology sectors. The office business remained soft, declining by 5%, primarily due to less demand in the financial services sector.

Within professional staffing we saw growth of 3% in IT, 5% in finance and legal and 6% in medical and science. In engineering and technical revenues were down 1%.

In perm we delivered another strong performance, with perm revenues up 10% in North America.

The EBITA margin excluding restructuring costs was 6.2% in the quarter; up 100 basis points year on year.

In June revenues were up 5% adjusted for trading days.

Turning next to the UK and Ireland, revenues overall were up 3%, again driven by professional staffing. In our large IT segment, revenue growth was 9%. Perm revenues accelerated strongly and were up 13% in the quarter. This drove a good improvement in profitability. The EBITA margin was 2.5%; up 70 basis points compared to the last year.

Revenues in June were up 1% adjusted for trading days.

However, please note that due to changes during the course of Q2 for some of our UK master vendor and related sub-supplier agencies contracts, third-party revenues that were previously reported gross will now be reported on a net basis. This had the effect of reducing the reported rates of revenue growth in the UK and Ireland.

Excluding this impact, revenue growth adjusted for trading days in June would have been 5% instead of 1%. This will also have an effect on reported growth rates for the coming quarters by a similar amount as we saw in June.

In Germany and Austria revenue growth decelerated to 7% in Q2 from 13% in Q1. This slowdown was mainly driven by the trading day effect and lower wage and related price inflation.

We saw good demand in our industrial business, which grew by 11% in the quarter. Demand in the manufacturing and logistics sectors was strong. And growth in automotive continued to be good.

Revenues in professional staffing fell by 6%. Engineering and technical, which is our largest professional staffing business in Germany, also declined by 6%.

EBITA was EUR10 million, giving an EBITA margin of 2.3%. This was down year on year, mainly due to the timing of bank holidays, which had a negative effect in Q2 compared to last year.

In June our revenues were up 7% adjusted for trading days.

In Japan revenues returned to growth; up 2% compared to the prior year. The majority of our business in Japan is in office, which is typically later to benefit from a pickup in economic activity. That said, our export-oriented engineering business did see continued solid growth.

Profitability remained good at 5.5%, although this was down compared to the prior year, partly due to a decline in our perm business.

In June revenues were flat adjusted for trading days.

Finally in terms of regional performance, I'll touch briefly on some of our other markets.

Iberia and Italy continued to deliver the strongest revenue growth; up 21% and 18% respectively.

In Australia and New Zealand market conditions remain challenging, although stable sequentially. As you know, we are not satisfied with our own performance there and we made some management changes earlier this year.

In Lee Hecht Harrison our activity levels moderated somewhat, which is normal in a time of economic recovery. In Q2 2014 revenue growth was 5%, while the margin remained strong at 28.4%. Yet again Lee Hecht Harrison outperformed the market on the top and on the bottom line.

And, with this, I hand over to Dominik to take you through the financials in more detail.

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

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

Patrick already mentioned in the operating highlights that we had revenues of EUR5 billion and EBITA of EUR224 million, while EUR228 million excluding restructuring costs. EBITA excluding restructuring cost increased by 18% in constant currency. I will give some further details on the drivers of this performance in the next few slides.

Looking further down the P&L, the effective tax rate was 27% this quarter. Net income grew by 15% and basic EPS grew by 18%, helped by the ongoing share buyback program.

Now we look at our sequential revenue growth analysis. This slide shows the sequential growth adjusted for currencies, acquisition and trading days for each quarter compared to the long-term sequential median growth for that quarter. In this way we show the sequential growth adjusted for seasonality.

Based on this analysis, we can see that we have been back in line with the long-term growth trend since Q1 2013 whereas before we were below the trend for all of 2012 when Europe was in a mild recession. The consistency of this picture gives us confidence that we'll continue to see steadily improving market conditions.

Sequential growth from Q1 to Q2 was encouraging, being again in line with the long-term trend. Slight underperformance in the UK and in Germany was fully offset by the strong outperformance in Italy and Iberia.

Next let's have a look at our journey across margin evolution. The Group's gross margin was 18.1% in Q2 2014; up 20 basis points year on year.

Temporary staffing had a 30 basis points positive impact on the gross margin, driven by our continuous strict approach to pricing as well as the effect of the French season.

As Patrick already mentioned, please note that this quarter CICE again had a positive effect year on year as it did in Q1 2014. This is due to the increase in the rate of the credit from 4% to 6% and a positive impact of the reassessment we made in Q3 2013 of CICE relating to prior periods and going forward.

Perm placement and outplacement had a neutral effect, while other activities had a negative effect of 10 basis points.

Now let me discuss our cost base development in the second quarter. We continue to monitor revenue development closely and manage the cost base accordingly.

SG&A in Q2 was up 3% compared to the same quarter last year in constant currency and excluding restructuring costs. This mainly reflects higher IT costs, a 1% increase in FTEs and higher bonuses resulting from the good performance in Q2 2014.

In the quarter FTEs were up 1% and the branches were decreased by 3% compared to the prior year.

Our Q2 2014 results included EUR4 million restructuring costs compared to EUR2 million restructuring costs in the same period last year.

Sequentially our cost base was down 1% in constant currency and excluding restructuring costs.

Turning to the cash flow statement. In Q2 2014 cash flow from operating activities was EUR130 million compared to EUR17 million in the same period last year. During the quarter we saw part of the CICE receivables generating cash proceeds of EUR109 million.

DSOs in Q2 2014 were 54 days compared to 53 days in Q2 2013.

In Q2 2014 the Group invested EUR18 million in CapEx, paid dividends of EUR291 million and spent EUR52 million on the purchase of shares. To date, under our share buyback program of up to EUR250 million, we have acquired 2.8 million shares for EUR162 million.

Net debt at the end of Q2 2014 increased to EUR1.3 billion compared to EUR1 billion at the end of March. Our net debt to EBITDA ratio stood at 1.2 times at the end of Q2 2014.

Looking forward our financial guidance is as follows.

CapEx for the year is now expected to be approximately EUR80 million.

Interest expenses, excluding interest income, are now expected to be around EUR70 million for 2014. This is a little higher than our previous guidance due to the interest cost from the sale of part of the CICE receivables.

We anticipate corporate costs of approx EUR100 million and amortization of intangible assets is expected to be approx EUR35 million.

In 2014 we expect to incur restructuring expenses of approx EUR20 million.

For Q3 the underlying tax rate is again expected to be around 28%. However, we expect the Q3 effective tax rate to be approx 23% as we had a positive discrete event in July.

SG&A in Q3 is expected to be at a similar level to Q2 in constant currency and excluding restructuring costs.

For modeling purposes please recall that Q3 2013 had a positive impact from the reassessment we made of CICE.

As we said at the time, the impact relating to prior periods positively affected the temp gross margin and the Group EBITDA margin by approx 50 basis points in Q3 2013.

With this, I hand back to Patrick.

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

Thank you, Dominik. We'd like now to finish with our outlook.

The momentum in our business remains positive. During the first half of the year revenue growth has been consistently between 5% and 6% in constant currency and adjusted for trading days, and this trend continued in July. Along with price discipline and good cost control, this has driven an improvement in profitability, which we expect to continue.

Given the current development in profitability, we are convinced we will achieve our EBITA margin target of above 5.5% in 2015. Also as we expect demand for flexible labor to increase further over the coming quarters. With our focus on reaching this target we are positioning Adecco strongly for the future.

In addition, within our solutions business we see the opportunity to further enhance our leading positions with one or two small bolt-on acquisitions.

There is no change in our position on M&A in the staffing business where our initiatives on segmentation and the centralization of our IT platforms mean we will not consider acquisitions for the foreseeable future.

And just to be clear, we will maintain our shareholder-friendly use of our strong cash flow. Our dividend policy will not change and our share buyback program continues as planned.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Paul Sullivan, Barclays.

Paul Sullivan - *Barclays - Analyst*

Just coming back to your ending comment about cash, Patrick, with the deleveraging starting to accelerate with your -- as you monetize the CICE benefit, doesn't that - or couldn't that change the way you start to think about cash returns and the fact that we could, in theory, start to see a bit more of an acceleration there? That's the first question.

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

First of all, if you look to the CICE, why we bought the CICE back that's -- we get this always a three-years delay and the financing conditions are very good for this kind of product to get those out of the balance sheet [because] it's about the cost. So adjusting from a shareholder approach and for the free cash flow development, it just makes sense to buy this back.

Now we have not bought this back because we have a certain anticipation to change something in our policy. Our dividend policy is very clear, very strong and our policy towards shareholders' value orientation as well. That means if there is free cash we always reassess whether there are opportunities for share buyback or not. And this is what we have done.

We concluded last year a EUR400 million program. We are in the process of finalizing the EUR250 million program. But we only will comment on new programs if programs are finished. Now we're talking about EUR100 million, it's also not the biggest amount on the CICE, which we received a bit more than EUR109 million.

Paul Sullivan - *Barclays - Analyst*

Yes, fair enough. And in the EUR109 million, what period does it reflect?

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

Let's say it considers basically the gross amount of last year. Don't see this now as the EBIT because, as you know, from part of this money is not showing up in the EBIT and part of this money we spent. But this is the gross amount of last year.

Paul Sullivan - *Barclays - Analyst*

Great. And then just on the operations in Germany. Can you give us a bit more color on volume, pricing trends there and a bit more color on professional? It looks like it got a little bit worse in the second quarter?

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

Correct. So if we just look to the German development, you have seen that the growth decelerated for the whole Company from 13% to 7%. Now what is the reason of this growth deceleration? It's basically two reasons.

One is the trading day impact, especially in a country like Germany but also in the UK, for example. The trading day impact was bigger than maybe this 1%, which we have for the whole Company. This explains half of the deceleration.

And the other half of the deceleration is basically that the wage and price inflation is in Q2, from a year-on-year comparison, less than in Q1. And this is purely a function of the base effect because last year we had, basically, because of collective wage agreements and these other things, a sequential pick up of wage inflation. So the underlying volume growth for the whole Company is basically stable.

Looking now to your question in terms of professional [perm] staffing and especially industrial business is doing very well. And professional staffing, we weakened somewhat. We are minus 6% last quarter.

Now looking to this, in the engineering business we have two bigger clients who slowed down their demands. This was client specific and these are bigger clients. And we really have to broaden our customer base more. And there it needs more commercial activity.

This business has a high profitability but it's also time now to really strengthen our commercial activities and get more mid-sized companies on the client base. And there we are working on. And the effects of this, we have not yet seen but we are very active to work on this.

Paul Sullivan - *Barclays - Analyst*

Great. Thank you very much.

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

I think it's also important to mention, Paul, that you will see a much better profitability in the third quarter for Germany. We expect that to be in the high-single-digit range.

Paul Sullivan - *Barclays - Analyst*

Okay. Great. Thank you.

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

And to Patrick's remark, this is, of course, related to those bank holidays. In Q2 we had six. Last year in Q2 we had five. And this disrupts the profitability as we recognize the expenses when they occur. And in Q3 we have, with the exception of Bavaria, no bank holiday. That leads to very high profitability.

Paul Sullivan - *Barclays - Analyst*

Great.

Operator

Laurent Brunelle, Exane BNP Paribas.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Three questions from my side, if I may. First on France, how do you explain the decline of 16% in the office segment? So what percentage of it for France? And what do you see for Q3, please, in terms of revenue trend?

Second, are you still confident of achieving high-single-digit sales growth in 2014 like you mentioned previously? Or is that a bit changed, given what happened in Q2?

And lastly, how do you explain the reduction in CapEx from below EUR100 million to EUR80 million, please?

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

I will take your second question on the high-single-digit growth. As we said in the presentation, we have been growing between 5% and 6% consistently over the first half year and also in June.

Now we stay, because, of course, this question I'm sure is related also to the achievement of our 5.5% minimum target, and we stay as confident as we were before to reach that target. Because if you see for the first half year, despite the growth of 5% to 6%, we have increased our profitability for the first two quarters combined with 70 basis points.

So you know this 5.5% has three components. It has a top-line component. Of course, it has a gross margin component. It has a cost component. Costs have again been very well managed; sequentially down 1%. Gross profit is very well defended here.

And so with the 5% to 6% (inaudible) on starting the year you have to put that in line also with the very moderate GDP growth.

If you see our growth in Italy, for example, of 18%, knowing that Italy was announced this week to have been in a recession in the second quarter, we clearly see that there is a demand out there for temporary labor and that these demands will continue.

The outlook on GDP for the second half of the year is a bit more positive and I take [now options] of what's going on geo-politically. But if that is the case, we see further demand pickup also for our temporary labor demand. But, of course, this GDP demand has to come through.

And we will give you more color on that during the investors' days, because then we are after the summer break and that will be then a clear indication for us for the rest of the year.

Dominik?

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

(multiple speakers) other questions. If you look to the office segment in France, it contributes 6% to French sales. It's a rather small piece.

Now, looking to where is this decline coming from, it's basically less demand financial service industry but also in call center-related services, who are weak here. And I don't think this will materially change in the short term.

Then coming to your other question, regarding CapEx, we said after Q1 it will be less than EUR100 million and we look to all the different projects and, from today's point of view, it will be in the area of EUR80 million for this year.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay. So just a follow up on what you said, Patrick. So basically you are saying that you will need less top-line growth than previously anticipated, which is your 5.5% EBITA margin target. (multiple speakers)

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

No, no, no. What I'm saying is we said that we need high-single-digit growth two years in a row. For the first half again every month we were between 5% and 6%. We increased our profitability with 70 basis points.

If we had more growth it will help, but we are really pleased with the result so far, being up 70 basis points with good cost control. And you know we always manage the costs in line with the top line and gross margin development and we will continue to do so.

So we stay confident that we will get there. And you have to see also, if you look at the growth rates in Europe, if we exclude France, and unfortunately we can't exclude France from Europe, sorry, that's a joke, but if we exclude France we are up on Continental Europe 10%, which is still very strong, and all led by the industrial business.

So France being flat and being in the rest of Europe up 10%, once France picks up, and France also one day will have to pick up because the surrounding countries are very strong and it's not an isolated country, although the French would love it, but it's not an isolated country in the world, so France will also benefit from what's going on in Europe and once France picks up, this will then increase our growth rates as well. But this has to happen first.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

But there is no sign of recovery yet in France. I mean -- (multiple speakers)

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

For the moment, not. If you see adjusted for business days that we had a similar development like we had for the Group, France being flattish in the first quarter, it was up 1%. It's zero, but it's a small difference and again adjusted for business days.

And then we had an additional impact in France being of the five bank holidays, three being on a Thursday this year, whereas last year they were on a Wednesday. So a lot more people making the bridge.

But if you see, there is no material difference from the second quarter to the first quarter and now we have to wait until September to see what's really happening after the summer break. But for the moment we have no indication that this will change.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay. Thank you very much.

Operator

Chris Gallagher, JPMorgan.

Chris Gallagher - *JPMorgan - Analyst*

So just on the growth rate in July, are you seeing any major differences to the June growth rates?

And also are you looking to increase headcount anywhere specifically?

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

If we look to the July growth rate, it's pretty similar. If you look to the whole year, every month adjusted for trading days was between 5% and 6%. There was no month where we had not 5% or 6%. And in this range we also develop in July for the whole Company.

And it's basically, I would say, across all countries. It's really basically July is similar, then June, let's say, plus/minus 1%, but really similar. And there may be one positive exception and one slowing down.

Switzerland is really picking up and then the outplacement business further slows down from the level of 5% which we had so far, which makes also some sense if this economy's picking up that the outplacement further slows down.

And the others are basically plus/minus 1% the same, like the exit rate in June.

Chris Gallagher - *JPMorgan - Analyst*

I'm sorry -- (multiple speakers)

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

When it comes to the headcount development, there may be some selective hirings. If we look, for example, to Spain, where we now three quarters in a row strongly outperformed the long-term trend, there we will make some hirings.

If you look to our solution businesses, which growing very strongly, we winning new clients, we need implementation people, there will be some hirings, but it's -- as we do this very selectively.

Chris Gallagher - *JPMorgan - Analyst*

Okay. Thank you very much. And just to clarify, what was it was the one positive exception in July? I just missed it.

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

It was Switzerland.

Chris Gallagher - *JPMorgan - Analyst*

Okay. Thank you.

Operator

Nicholas de la Grense, Bank of America.

Nicholas de la Grense - *BofA Merrill Lynch - Analyst*

Two questions from me. First one on France and the competitive landscape there. You've lost a little bit of market share, as have some of your other larger peers. And it's clear that some of the smaller players are sacrificing price to win volume.

Can you tell us which parts of the market are feeling most competitively challenged? Is it the SME segment, larger accounts? Or are there any specific sectors?

And then the second question. We've been talking about for a couple of quarters about industrial outperformance being a good lead indicator of improving growth across the rest of the Group. Have you been disappointed with how quickly the non-industrial sectors have developed? Or is this as you might have expected and the growth would really come in in the next coming quarters? Thanks.

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

Nicholas, I will take your question on France. We don't have the impression here that we are losing market share, certainly not against the main peers.

You know the market is highly concentrated in France and if we see that we are flat and another peer is up 2% and another is minus 1% we consider ourselves in line.

Then again, if you look at our profitability, which is strong and which is, with 6.1%, absolutely leading, this is, of course, always our priority is to be at least -- you know that our strategy is to be at least in line with the market but having the leading profitability, meaning we don't give up profitability for market share.

Overall, I think the pricing environment in France is okay. It's rational. You see that also on the improvement of the profitability of the different players. I wouldn't exclude the fact that the next tier players are more aggressive in the market and you see that also in their growth rates.

But when it comes down to the main players in France, I would say the pricing behavior is very rational and it's certainly from our side, as you can see in our development on the profitability.

Nicholas de la Grense - *BofA Merrill Lynch - Analyst*

And just one follow on from that. Do you not see a risk that the aggressiveness of the smaller players could trickle through to some of the larger players? I know you're all being very clear that you want to keep hold of the CICE benefit, but it does feel like -- yes.

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

We follow up and you have to look at the overall markets and we have our weekly numbers on the market that we received from the [prison] and we compare ourselves. And the difference between us and the market is really very limited.

So the smaller players, you have a number 4 and a number 5 there, which do a bit more than EUR1 billion in revenues, and I'm not saying they're not important, not at all, but we shouldn't focus on that.

In the end I think the most important thing is that we, especially in a market like France, which has always been a low-margin market, that we generate very good profitability and that we generate this profitability now, even with flat sales, so that we create very good leverage there in the future.

That should be our focus area, and not one or the other player that is growing a little bit faster, as long as, again, if we look at the main peers that we are growing in line with those.

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

And then to your question regarding the different segments, we always said in this is a [industrial] recovery (inaudible) and it takes some time, some quarters, then other segments follow.

So I would not have the expectation that now in Q2 professionals all of a sudden picking up; it would be just too early. Should it in one or the other [countries] it should be (inaudible) under normal circumstances over the course of the second half, yes. But that is not expectation for Q2.

Nicholas de la Grense - *BofA Merrill Lynch - Analyst*

Okay. Thank you very much, guys.

Operator

William Vanderpump, UBS.

William Vanderpump - *UBS - Analyst*

Just a couple from me. On Germany, just to clarify on the volume versus price, Dominik, did you say that there was -- it was flat volume right at the end of your commentary on Germany?

And then secondly, on Italy and Iberia, which have clearly grown well in Q2. Maybe I missed it, but if you could give the exit rate and, I suppose, a view of growth rates into H2, obviously when the comps get much harder. Thanks.

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

If we look at the exit rates for Iberia, they are similar in -- by the development in the second quarter. So we have a similar development like we're having for the Group.

William Vanderpump - *UBS - Analyst*

And in Italy as well?

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

Yes. Iberia and Italy.

William Vanderpump - *UBS - Analyst*

Okay. So basically you're now in line with that high growth in Q2.

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

Yes.

William Vanderpump - *UBS - Analyst*

Okay.

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

If we look to the second half, and you know we have not high visibility in our business, but if I just look how they outperformed the long-term trend over the last couple of quarters, it's not that we are now concerned that this growth rate in these countries will now very quickly decelerate. It's not that they becomes sky rocket, for sure not, but they will stay on the very good level, at least what is so far experienced in these countries.

And then, regarding Germany, I said not flat in volume. I said the growth rate in volume in Q1 and Q2 was the same.

William Vanderpump - *UBS - Analyst*

Okay. So mid-single digit?

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

Between low and mid-single digit, yes.

William Vanderpump - *UBS - Analyst*

Right, okay. And actually, just going back to Italy, because that's quite a good example. With a weak GDP in Q2 what -- there's, I suppose, quite a short comment on the performance there. What specifically is driving that? Can you give some examples of how you can grow so much ahead of the economy?

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

If you look to Italy, I think that's different components coming together. In general, it was a bit more than one year ago, you remember this, there was a shift to more flexibility with clients. Where also from the workers' council or unions pushed to rather use temps as good flexibility than just only limited contracts. So that helped.

Secondly, I think it is true, the GDP is weak. We have seen it all in the data, but I think there is still a big difference. If you look at Italy to the different regions, if you look to the north of Italy, even that I don't have details by GDP of north of Italy, they were doing clearly better than the south of Italy and we have much more exposure there overall.

And a lot of these companies who are very specialized are sub-suppliers to German automotive, to German manufacturing. And, as long as there is demand coming, they're doing well, but they (inaudible) higher (inaudible).

And then finally, I think that our team is doing a very strong job, because this is not market proof. I think we're really outperforming the market in this respect.

And if we look to get a little bit of color which segment's driving this growth, this is the automotive business is doing very well and the logistic transportation is doing well, manufacturing is very strong. So the normal, I would say, cyclical stuff.

William Vanderpump - *UBS - Analyst*

Okay, great. Thank you very much.

Operator

Tom Sykes, Deutsche Bank.

Tom Sykes - *Deutsche Bank Research - Analyst*

I just wondered, could you maybe go through the operating leverage in the US business in a little bit more detail, please? I think in the last couple of years you're probably up only around about 6% in constant currency, you're down a bit in reported. But, obviously, your EBITA is up by about 30%. So could you maybe go through what's driving that leverage, please?

THOMSON REUTERS

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

So if we look to the margin increase in the US, which was very good in the second quarter, you have to remember in Q1, for example, that the margin increase was a bit held back because of the weather conditions in general. And now in the second quarter we had a very good temp gross margin.

Also fair to say that last year Q2, but also Q3 last year, we had a bit of more healthcare costs and now they are down again from this point of view. So this helped.

Furthermore, perm is, of course, helping. It's developing well. It's growing double digit. It was already before. And then, on top of it, our Pontoon and Beeline business, our solution business, the big majority of these businesses is in the US, are also reported in the US segment. And they show quite strong leverage, which helps, of course, the whole region in terms of profitability.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay. Thank you. So if sales growth was to go negative, do you think you'd see the same level of operational gearing on the way down?

And also, just on profitability in LHH, obviously we're looking at maybe things slowing a little, as you're saying things are improving. What's your outlook for profitability? Obviously, you already always said that you can hold profitability at a reasonably good level in LHH, but what's your outlook there, please?

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

First of all, in North America it's, of course, easier to take cost out. And if you look back to the historic development of our Company, we always managed the cost base accordingly. And we will take costs out if things get weaker. This is what we always do and will continue to do. And the advantage in North America is that we have not labeled also who makes our life difficult.

Of course, the pre-assumption is that the gross margins are of a similar level, but this is how we always manage it. You can look there also to [prior side] doesn't apply the same methodology.

Coming to Lee Hecht Harrison, Lee Hecht Harrison has a very high profitability. Our model is pretty flexible when it comes to real estate and other things. And the rule of thumb is basically if we lose there one dollar of sales or gross profit we try to get out $0.60 cost there. So that means, yes, if Lee Hecht Harrison has sales decline, the margin will decrease operating margin, but always in a way that it stays very solid.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay, great. Thank you very much Dominik.

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

And maybe one more word. If you look now the sales deceleration, if you look from Q1 to Q2, this was coming primarily from the US because the US economy is now recovering so this area is slowing down. You see that we are able to cope with it from a cost point of view and still showing very good profitability in this business.

Tom Sykes - *Deutsche Bank Research - Analyst*

Sure. Okay. Thank you.

Operator

Alain Oberhuber, MainFirst.

Alain Oberhuber - *MainFirst Bank - Analyst*

I have three questions. The first question is about again price discipline. Could you let us know in which countries we currently see some kind of a price pressure, if at all?

The second question is on Germany and the EBIT margin there, the development -- potential development for the second half. What was the gross margin in Germany in Q2? Was it stable?

And then what could we expect then for the rest of the year if we see this strong pickup because of lower bank holidays in the second half?

And the last question is on acquisitions. You mentioned, Patrick, potential acquisitions in the solutions business. What could be the size of such kind of an acquisition? And what is your allocated firepower for such kind of acquisitions?

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

First of all on the price discipline, I would say that overall the pricing environment is very rational. You always see here and there some aggressiveness. Sometimes we see it for one or the other [deal] in the Dutch market, sometimes in Australia, sometimes in Canada. But overall I would say the pricing environment, and again you see that also in the development of the profitability of the main players, the pricing discipline is there and the pricing environment is very rational.

On the acquisitions, again we are talking here about enhancing our existing technology environment. We are talking about bolt-on acquisitions, so a couple of tens of millions; nothing material. But the solutions businesses are less fragmented than the staffing businesses and if there are opportunities there and we can, for example in the technology, move faster by buying instead of building, I think we should do it.

But we are talking about a couple of tens of millions here; one or two small bolt-ons in the foreseeable future, nothing in staffing at all. And again, we are not changing at all our strategy here or changing our strategy towards our shareholder-friendly policy.

Then on Germany, Dominik?

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

If we looked at Germany, the gross margin second quarter, of course, was down. This is also the reason why we have a lower profitability and there are two main reasons.

The first reason is that we had six bank holidays this quarter compared to five bank holidays the year before in the second quarter. And this, of course, impacts the profitability as we have the people on the bench and basically have to pay them this whole bank holiday.

The second reason is, of course, that the mix comp in Germany is negatively changing from a gross margin point of view, as our general staffing business is doing very well, our industrial business is growing very strong and professional is minus 6%, which has materially higher gross margins. So there is, of course, a big mix change, which brings the gross margin down.

Now if we look going forward, let us look to Q3. Q3 we believe we will have high profitability on high-single digit because it's again a normal quarter. We have bank holidays the same like in the before that we can show a high profitability, of course knowing that the mix is still negative, because this will not change from one to the next quarter in this point of view. But please consider Q2. This is [area] the same, very profitability Q3 very high.

Alain Oberhuber - *MainFirst Bank - Analyst*

Thank you very much.

Operator

Michael Foeth, Bank Vontobel.

Michael Foeth - *Bank Vontobel - Analyst*

One question on the UK. Did I understand correctly that this different revenue recognition for third parties has no impact on EBITDA? Can you clarify that?

And then the second question is, I'm not sure if you mentioned it, but your policy regarding those CICE receivable sales going forward, will you continue doing that next year as well? Or what's your thinking there? Thank you.

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

So if first look to the UK, that's correct. There is no impact on the absolute gross profit nor on the absolute EBIT. It's just a recognition gross versus net of third-party suppliers in this respect. So there's no impact on absolute gross profit and absolute contribution in this respect.

Then to the CICE sale, in general we will not pull out, that we continue to do this subject to all the financial conditions. But in general we believe this is a good way to materialize the cash of this incentive much earlier than what is foreseen so far.

Michael Foeth - *Bank Vontobel - Analyst*

What does it cost you, did you mention?

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

It will not cost a lot because debt costs are very cheap currently.

Michael Foeth - *Bank Vontobel - Analyst*

Okay. Thank you.

Operator

Hans Pluijgers, Kepler Cheuvreux.

Hans Pluijgers - *Kepler Cheuvreux - Analyst*

A few questions from my side. First of all on the cost side, down sequentially 1% in constant currencies. If you look, let's say, at some building blocks like the number of employees, which are slightly up, normally also bonuses are up in Q2, a seasonal impact there. So what costs are then down? How should I look at it? What have the marketing costs been doing sequentially? Could you give some feeling on the breakdown of the cost?

Secondly on the DSO and trade payables, especially trade payables, you saw up positive impact on the cash flow, also some timing impact there. What was the reason behind that?

And lastly you mentioned a tax event in July. Could you give some more -- some detail on what's the background there?

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

If you look first to the cost and what are the components which drive the cost down from Q1 to Q2, on the one hand we have less premises expenses. And this still has to do from the restructuring which we have done partly also from -- that's basically Q4 restructuring where we benefit still from now the finally empty branches where we had already the accrual and now going forward we have no additional rental. Premises expenses went sequentially down.

Then it's also the case that we had less bad debt in Q2 compared to Q1. And IT costs, in IT it depends which project has just been run, IT costs were in Q2 somewhat lower than in Q1.

These are basically the main issues.

Now there's one component which you also have to consider always; holidays, how people take holidays. And with that also after the full year Q1 is normally a quarter where we have not a lot of holidays because we want to have the people at the beginning of the year back in the business focusing on operations. And, of course, in the second quarter with all those bank holidays, people take a bit more off. So also the holiday salaries or accruals for holiday vacation were somewhat down. These are the different components.

When we look to the tax situation, there are always these crazy rents where you have certain accruals and discussions with tax authorities and if you have the conclusion you either have the charge or benefit and in this case in one jurisdiction we had a benefit.

For the DSOs, they were up half a day and this was just how it rounded depending on the different countries, on the rating of the different countries. So underlying we're not seeing the DSOs are changing. The last couple of quarters we have by 53 days. This quarter was by 54 days.

Hans Pluijgers - *Kepler Cheuvreux - Analyst*

On the trade payables, that's positive, quite significantly positive impact in the cash flow. Or is there any, let's say, [damning] impact or --?

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

Last year we had a bit more accruals, but there is not much impact this year, no.

Hans Pluijgers - *Kepler Cheuvreux - Analyst*

Okay, thanks.

Operator

Toby Reeks, Morgan Stanley.

Toby Reeks - *Morgan Stanley - Analyst*

I've got a couple. First of all on the gross margin you've got 30 basis points out of temp's gross margin on a year-on-year basis. I think you should have got about 50 basis points out of the CICE. Could you explain the difference between the two?

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

I have not understood.

Toby Reeks - *Morgan Stanley - Analyst*

Well it looks like you should have got about 50 basis points out of the CICE positive year-on-year benefit, and in temp, at Group level in temp gross margins you were up 30 basis points. So what's the difference between that 30 basis points and the 50 basis points?

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

I think it's correct to say this is the CICE impact there, because we always said CICE is not part of the normal situation and there is also sometimes we have difficulty to pass on new indirect labor costs.

There we have in France now a new training fund which we have to support where it's very difficult to pass this on to the clients because they will -- there you have to see it as though -- I think we cannot differentiate in this way. Now that said, of course in France the positives have contributed to the overall temp margin in the second quarter.

Now what you have to consider in Q2 in general is we have first of all in countries like Germany, we have one bank holiday more, which impacts our margin, and also the contribution to the overall results. So the Q2 margin is also temp-wise negatively impacted by this bank holiday compared to the prior year.

Toby Reeks - *Morgan Stanley - Analyst*

Okay, thanks. And on the CICE is there any move in terms of how that might evolve? Have there been any announcements, I haven't seen any, of your discussions in France?

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

We have no reason, Toby, to think that this would change after the elections. The French Government has been slightly adapted or has been recomposed and clearly saying that they really want to support the economy further and they also see that it's absolutely needed. So we have no indication that the approach towards CICE would change for this year or next year.

Toby Reeks - *Morgan Stanley - Analyst*

Okay, thanks. Then one on costs. It feels like you're -- you're obviously trading at the 5% range June, July. In terms of your comments around similar costs on a sequential basis, I think that was pretty much your guidance last time and it looks like there was EUR18 million underlying cost improvement. How shall I think about that? Should I think, okay, similar means EUR18 million? Or is that just over-simplifying things?

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

So you mean up from Q1 to Q2? Or --

Toby Reeks - *Morgan Stanley - Analyst*

Yes, from Q1 to Q2. So your cost guide -- (multiple speakers).

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

We said similar and we are now coming in sequentially 1% down. I explained also a couple of reasons like net debt was also somewhat better, our IT spending was a little bit less. You have to give a little bit of reason that we cannot give you by million the cost base for next quarter, right?

Toby Reeks - *Morgan Stanley - Analyst*

Yes, on an underlying basis excluding FX is --

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

The cost base will be similar.

Toby Reeks - *Morgan Stanley - Analyst*

Okay. Fair enough. Thanks, guys.

Operator

Konrad Zomer, ABN AMRO.

Konrad Zomer - *ABN AMRO - Analyst*

My first question is on the pickup in the office segment. It looks like that might take a bit longer than some of us might have expected earlier.

If that wasn't too materialized for, let's say, another two to three quarters, would that still have a negative impact on your EBITA margin for the Group, because it seems to me that the margin gap between industrial and office might have come down over the last few years?

And my second question is a shorter one. Can you give us the percentage of your gross profit that's currently coming from your permanent placement business, please?

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

If we look first to this office question, there is definitely an area where office was important. This is North America, where office is strong, with minus 5%. And we always said it's not that we believe there are so much of a pickup, there is a lot of financial service industry exposure. The demand is rather weak and we have to see how things going on.

On the other hand, it depends also a lot on when we talk about office in Japan because the majority of our business in office is also related to Japan. There we have now a bit better development with plus 2%, so we have to see how Japan is going on to judge the office part.

Then finally, the margin gap between office and industrial, you're right, is definitely coming closer together, which, of course, has partly also to do with France, because in France we have the CICE.

You see our French results in terms of profitability and from the French business office is only 6% whereas industrial were the main benefit in both segments, if [you get a lot] [see] the benefits.

But, by the end of the day, the industrial business takes, relatively speaking, much more in this respect, so there is a difference.

And finally, comp on gross profit I think is currently 10%.

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

10% of gross profit.

Konrad Zomer - *ABN AMRO - Analyst*

Right, okay. But to finally come back on that office segment, if that was to take a bit longer it wouldn't endanger your view on getting to an EBITA margin of at least 5.5% by the end of next year.

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

To be honest, I think that there are so many different components which impact how you can come to this 5.5%. I would not say now it's dependent that office has to pick up, whatever, in October or November. This is really not how we look to this thing. So, in general, I would say I don't think so.

Konrad Zomer - *ABN AMRO - Analyst*

Right. Okay. Thank you.

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

Ladies and gentlemen, this concludes our call for today. Thank you very much for interest in our results and in our Company.

I would like to stress again that we have our Investor Days on September 24 and 25 in Rome and we all hope here to meet you there. If not, we for sure speak to each other on November 6 when we announce our third-quarter results. Thank you for much and have a good day.

Operator

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