

11-Aug-2015

Adecco SA (ADEN.CH)

Q2 2015 Earnings Call

CORPORATE PARTICIPANTS

David J. Hancock
Head-Investor Relations

Patrick de Maeseneire
Chief Executive Officer

Alain Dehaze
Regional Head Of France and Designated CEO

OTHER PARTICIPANTS

Chris C. Gallagher
JPMorgan Securities Plc

Nicholas E. de la Grense
Bank of America Merrill Lynch

Konrad Zomer
ABN AMRO Bank NV (Broker)

Toby W. Reeks
Morgan Stanley & Co. International Plc

Hans Pluijgers
Kepler Capital Markets SA (Netherlands)

Tom R. Sykes
Deutsche Bank AG (Broker UK)

David Tailleur
Coöperatieve Centrale Raiffeisen Boerenleenbank BA (Broker)

Alain-Sebastian Oberhuber
MainFirst Schweiz AG

Matthew G. Lloyd
HSBC Bank Plc (Broker)

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, good morning. Welcome to the Adecco Q2 Results 2015 Analyst Conference Call. I'm Selena, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. After the presentation, there will be a Q&A session. [Operator Instructions] The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Mr. David Hancock, Head of Investor Relations; accompanied by Mr. Patrick de Maeseneire, CEO; and Mr. Alain Dehaze, CEO Designate of the Adecco Group.

Please go ahead, gentlemen.

David J. Hancock
Head-Investor Relations

Thank you. Good morning and welcome to Adecco's second quarter 2015 results conference call. To present to you today, I'm joined by Patrick de Maeseneire, group CEO; and Alain Dehaze, CEO Designate who will formally take over the CEO role from September 1st. Before we start, please have a 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, I will review the financials and finally Alain will cover the outlook. We will then open the lines for your questions before Patrick closes the call.

With that, Patrick, I hand over to you.

Patrick de Maeseneire

Chief Executive Officer

Thank you, David. Good morning, ladies and gentlemen. I will start with the highlights of the second quarter where our colleagues around the world delivered another good performance. On this and the following slides, I will give our growth rates on an organic basis, unless otherwise stated.

We had revenues of €5.6 billion, an increase of 4%. Gross profit also grew 4%. The gross margin was 18.7%, up 60 basis points year-on-year or up 10 basis points on an organic basis. Costs continue to be well-controlled. SG&A, excluding one-offs, was up 2% year-on-year and up 1% sequentially. This resulted in EBITA, excluding one-offs, of €272 million. The EBITA margin, excluding one-offs, was 4.9%, up 30 basis points year-on-year.

When looking at our exit rates, the months of May and June were both heavily impacted by trading day adjustments. Combined, they showed 4% growth over the prior year, adjusted for trading days. In July, revenue growth was similar to Q2, adjusted for trading days.

Let's have a look at the second quarter operating performance in more detail. I will start with the revenue development by region. In Europe, revenues grew by 3% in the quarter compared to a growth of 2% in Q1. We returned to growth in France and in Germany, and we saw a further pickup in Italy and the Benelux while Iberia again achieved double-digit growth.

In North America, growth moderated with organic growth of 2% compared to 4% in Q1. The growth was driven by strong performances in Industrial, Medical & Science, and Finance & Legal offset by continued weakness in Engineering & Technical.

Growth in rest of the world was 8% in Q2. In Japan, revenues were up 3%. In Australia and New Zealand, revenue growth was 7%. Emerging markets revenues grew by 11%, led by double-digit growth in Eastern Europe and in India.

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. In Q2, revenues in Industrial grew by 6%, up from 5% in the previous quarter. France and Germany returned to growth and the growth improved in Italy and the Benelux, while North America, Iberia, and Eastern Europe continue to grow double-digit.

In Office, revenues grew by 4% year-on-year, the same as in the previous quarter. In Professional Staffing, revenues declined by 2%. Revenues grew in Finance & Legal and in Medical & Science, while Information Technology was flat and Engineering & Technical declined. Finally, within Solutions, growth remained strong 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 and growth here was 3% this quarter, the same as in the previous quarter. Revenues from permanent placement continued to grow strongly, up 13% in Q2 compared to 12% growth in the previous quarter. In outplacement, growth was 5% this quarter compared to flat in Q1.

We now go through our main markets in more detail. In France, revenues returned to growth and were up 2% on the prior year. Revenues in our large Industrial segment increased by 3%. Revenues in Office were flat, while Professional Staffing declined by 10%.

From an industry perspective, in construction there are signs of stabilization while in logistics and automotive, growth continued to improve. Permanent placement revenues in France were up 10% this quarter. The EBITA margin was strong at 6.6%, up 50 basis points year-on-year. In May and June together, our revenues were up 3% adjusted for trading days and July showed a similar trend.

We turn next to North America. Revenues increased by 2% with growth of 4% in General Staffing, while Professional Staffing was flat. Within General Staffing, we saw continued strong growth in the Industrial business at 11%. This was again driven by good demand from the logistics and technology sectors. The Office business declined by 4% in Q2, partly due to continued weak demand from financial services.

Within Professional Staffing, we saw growth of 10% in Medical & Science and 5% in Finance & Legal. IT returned to growth and was up by 3%. Engineering & Technical declined by 9%, negatively impacted by weakness in the oil and gas industry especially in Canada. In Perm, we continued to deliver strong performance with revenue growth of 12%. The EBITA was 6.1% in the quarter, down 10 basis points year-on-year excluding restructuring costs in Q2 of last year. In May and June combined, revenues were up 2% adjusted for trading days with a similar growth rate in July.

Turning next to the UK & Ireland. Revenues overall were down 1%. Our Professional Staffing segment was down 3% with IT down 2%, and Finance & Legal down 1%. Our Office business line was up 4%. Perm revenues were down 1% in the quarter. The EBITA margin was 2.4% compared to 2.5% in the second quarter last year. Revenues in May and June combined were up 1%, adjusted for trading days, with July similar to Q2 as a whole.

As mentioned previously, due to changes for some of our UK Master Vendor and related sub-supplier agency contracts, third-party revenues that were previously reported gross are now reported on a net basis. This has the effect of reducing the reported rates of revenue growth in UK & Ireland. Excluding this impact, revenue growth would have been 2% higher than reported.

In Germany and Austria, revenues returned to growth and were up 2%. Our Industrial business line was up 4%, while revenues in Professional Staffing fell 1%. Engineering & Technical, which is our largest Professional Staffing business in Germany, declined by 4%, while IT grew 8%, and Finance & Legal, 2%.

In our Perm business, revenues continued to grow strongly and were up 29%. The EBITA margin was 2.4%, up 10 basis points year-on-year. As you know, the impact of bank holidays makes our margin in Germany very seasonal, and therefore we expect a much stronger margin in Q3 and also in Q4 when the timing of bank holidays this year is especially favorable.

In May and June together, revenues were up 3% adjusted for trading days with a similar growth seen in July. In Japan, revenues grew by 3% in Q2. Adjusted for trading days, the growth rates in the first and in the second quarter were similar at approximately 4%. Office revenues were up 5%, while professional staffing revenues remained solid.

In our Perm business, revenues were up 30%. EBITA was €16 million giving an EBITA margin of 5.8%, up 30 basis points year-on-year despite the investments in the rollout of our global IT platform. In May and June together, revenues were up 4% adjusted for trading days with a similar growth in July.

Finally, in terms of regional performance, I'll touch briefly on some of our other markets. We continue to see accelerating growth in Italy, which was up 19%, and the Benelux up 8%. Iberia remained strong and was up 13%, continuing its strength of double-digit growth which started at the end of 2013. In the Nordics, while Sweden returned to growth, Norway worsened due to a market environment which continues to be very challenging.

In Lee Hecht Harrison, organic revenue growth was 4%. Knightsbridge, our acquired business in Canada, is consolidated since April 1. The EBITA margin excluding integration costs was 30%. Once again, Lee Hecht Harrison outperformed by far the market on the top-line and on the bottom-line.

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

David J. Hancock

Head-Investor Relations

Thank you, Patrick. I'll start with an overview of the P&L. Patrick already mentioned the operating highlights in his introduction with revenues of €5.6 billion and EBITA excluding one-offs of €272 million. EBITA excluding one-offs increased by 19% or by 10% in constant currency. Looking further down the P&L, the effective tax rate was 25% this quarter. Discrete events had a positive impact of approximately 2% on the tax rate. Net income grew by 22% and basic EPS grew by 25%, helped by the ongoing share buyback program.

Next, let's look at our sequential revenue growth analysis. This slide shows the sequential growth adjusted for currencies, acquisitions, and trading days for each quarter compared to the long-term sequential median growth for that quarter. In this way, we share the sequential growth adjusted for seasonality.

After outperforming the long-term trend in Q1, we were again in line with the trend in Q2. This quarter, we saw the greatest outperformance of that long-term trend in Italy, France, Benelux and Iberia, while we underperformed the long-term trend in the Nordics because of Norway, in Switzerland and in the UK and Ireland.

Turning next to the year-on-year gross margin evolution. The group's gross margin was 18.7% in Q2, up 60 basis points on a reported basis. Currency effect accounted for 30 basis points for the increase, acquisitions had a positive effect of 20 basis points, and the organic increase was 10 basis points. On an organic basis, Temporary Staffing had a five basis points negative impact on the gross margin, while permanent placement added 15 basis points.

Now, let me discuss how the cost base developed in the second quarter. As always, we monitor revenue developments closely and we manage the cost base accordingly. SG&A excluding one-offs was up 2% organically compared to the prior year. In Q2 2015, one-offs comprised €5 million integration costs in LHH related to the acquired Knightsbridge business and €10 million costs for contractual obligations related to the change of CEO and CFO. In Q2 2014, one-offs comprised €4 million restructuring costs in North America. Looking sequentially, our cost base was up 1% in the quarter, organically and excluding one-offs.

Next, turning to the cash flow statements. In Q2 2015, cash flow from operating activities was €154 million. During the quarter, we again sold part of the CICE receivables as we did also in Q2 2014, generating cash proceeds of €163 million this quarter, compared to €109 million last year.

DSOs in Q2 were 53 days, one day less than in the prior year in constant currency. In the quarter, CapEx was €24 million and the group paid dividends of €348 million and paid €11 million for treasury shares. To date, under our share buyback program of up to €250 million launched in November last year, we've acquired 1.4 million shares

for a total consideration of €90 million. Net debt at the end of June increased to €1.4 billion compared to €1.1 billion at the end of March, primarily due to the payment of the dividend. Our net debt to EBITDA ratio was 1.3 at the end of Q2 2015.

As usual, we'll now also give some financial guidance. Corporate costs this year are expected to be around €125 million. Interest expenses excluding interest income are expected to be around €65 million for the year. CapEx for 2015 is expected to be around €90 million, and amortization of intangible assets is expected to be approximately €35 million. For the third quarter, we anticipate an effective tax rate of approximately 27%. And in Q3, SG&A is expected to decrease slightly compared to Q2 in constant currency and excluding one-offs due to normal seasonality.

And with that, I'll hand over to Alain for the outlook.

Alain Dehaze

Regional Head Of France and Designated CEO

Thank you, David and good morning, ladies and gentlemen. As David said at the beginning of the call, I will formally take up my position on September 1st, that already Patrick and I are actively engaged in our handover process. So as part of that process, I also join you on the call today.

Now, let me comment on our outlook before I add some additional remarks. In the second quarter, revenue growth continued at a similar level to the first quarter. The overall trend in our businesses in Europe has continued to become more positive, while growth remains robust in emerging markets. This has been offset by some moderation of growth in North America. In July, revenue growth for the group was similar to the second quarter in constant currency and adjusted for trading days. We continue to be committed to achieving our EBITA margin target. As previously stated, this is dependent on an acceleration of revenue growth in the second half of the year.

Given the trends in our business and the current economic outlook and helped by a midyear comparison base, we continue to expect such a pick up. Based on this positive outlook, we remain convinced we will achieve all targets.

Besides this comment on outlook, I would like to add a few additional remarks. As you can imagine, it has been a rather busy three months since we announced the upcoming change in leadership, as well as a smooth handover with Patrick, high priorities for me have been the appointment of my successor in France and of a new group CFO.

In France, I'm very pleased that we were able to appoint as my successor, Christophe Catoir, who has 20 years experience in our business despite his youthful 43 years of age. Regarding the CFO search, we are making very good progress. I hope you will understand that we will not give specific details on the process and the timing at this stage.

Also, in the coming months, I will enter into our annual strategic review process together with the board, and I would like to assure you that we are all committed to maintaining our strategic direction and continuing our financial discipline.

I'm now very much looking forward to engaging with the investment community. And in fact, I should say, re-engaging with those I know from my time as CEO of Solvus. Over the coming days, I would be on our Investor Road Show along with Patrick. So I hope that we will get chance to meet in person.

And with that, I hand back to Patrick.

Patrick de Maeseneire

Chief Executive Officer

Thank you, Alain. Ladies and gentlemen, since this is my last call with you, I will add a few words from my side after the Q&A session.

And for this Q&A session, we open the lines right now.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer section. [Operator Instructions] The first question comes from Mr. Chris Gallagher from JPMorgan. Please go ahead.

Chris C. Gallagher

JPMorgan Securities Plc

Q

Good morning and a couple of question from me. The first one is, can you give some color around contracts, you signed in the U.S., you mentioned in the last call that could be helpful in IT and Engineering & Technical.

And then the second question is around the gross margin in Temporary Staffing, had a negative impact overall this year or this quarter. I just like to know what geographies are you seeing more intense price pressure. Thank you.

Patrick de Maeseneire

Chief Executive Officer

A

David?

David J. Hancock

Head-Investor Relations

A

So, on the first question on the U.S. business. As you said, we highlighted some contract wins last quarter. I think we said it would start to come through as of the third quarter. You see already a bit of that benefit in IT in the second quarter where the growth rate picked up actually from a decline in the first quarter to growth in the second quarter, and we would expect that trend to continue into the second half of the year in terms of improving top-line growth in IT in North America.

If we look at the Engineering & Technical business, that business was down in North America, 9% in the second quarter, heavily influenced by Canada. So, excluding the effect of Engineering & Technical in Canada, we would have been down 6%. So it's still clearly a decline. There is pressure on the Engineering & Technical business from clearly the oil price and the effect on oil and gas. And also, we see reduced spending in defense, which is also impacting that business. And we haven't really yet seen the CapEx cycle pickup in the U.S. and that is also important to see Engineering & Technical improve. So I think for IT, we'd expect an improving trend in the second half of the year. Engineering & Technical will remain challenging.

Chris C. Gallagher

JPMorgan Securities Plc

Q

Okay.

Patrick de Maeseneire
Chief Executive Officer

A

Thank you, David. On your second question on the potential price pressure and the negative development on the Temporary gross margin, I would like to point out that we are only down five basis points which is rather a good development, I would say, if you compare it to the market. And I would also say that the pricing environment overall stays pretty rational. As also stated in the previous call, there is one or other competitor saying that they would share some subsidies in France, or that they would invest some of the margin in gaining market share in Holland and we've seen that.

If you see at the profitability and development of some of our peers, you'll see that this is actually happening, but as you know as the market leader, we don't want to participate in that. We want to keep our price discipline, and so we are happy that we are only down five basis points. You also have to see that the second quarter is a quarter which is mostly affected by bank holidays and we had two additional bank holidays in Holland. And so, as well for the markets of Germany, Sweden and Holland, this has quite some impact. So for us, the pricing stays really at the level that we want it to be.

Chris C. Gallagher
JPMorgan Securities Plc

Q

Okay. Thank you.

Patrick de Maeseneire
Chief Executive Officer

A

Next question please?

Operator: The next question is from Mr. Nicholas de la Grense from Bank of America Merrill Lynch. Please go ahead.

Nicholas E. de la Grense
Bank of America Merrill Lynch

Q

Morning. Two questions for me, please. In terms of France, first off, our momentum was pretty good. And the comps obviously you had a lot easier in the second half. Is it fair to say that when you talk about the second half acceleration in growth that France would be the biggest delta to that?

And then perhaps – I mean, the present data of France for the last couple of months has been a little bit confusing with revenue growth or industry revenue growth outstripping the number of temps that worked quite considerably. I was wondering if you could comment on what trends you're seeing and whether – which is the right number to look at in terms of present data?

And then the second question is more generally, obviously organic cost discipline has been very strong. And I was wondering, to what extent all regional managers holding back on investment in order to hit the 5.5% margin target by the end of this year? And then what would it take to see organic growth or organic cost growth step-up? What level of organic top-line growth would you need to see an acceleration to. Thanks.

Patrick de Maeseneire
Chief Executive Officer

A

Say that last again, Nicholas.

Nicholas E. de la Grense

Bank of America Merrill Lynch

Q

Sorry. I wasn't very clear. So organic growth rate has been pretty low, 2%. If organic growth steps up in the second half, at top-line level, would you expect cost growth to increase proportionately, or do you think your regional managers are going to be able to keep a lid on costs in order to hit the 5.5% margin target?

Patrick de Maeseneire

Chief Executive Officer

A

First in France in detail, the momentum is good. We returned from minus 2% to plus 2%. We see also in the construction, for example which is a rather important part of our business, that sequentially this was the highest growth rate that we have had since many years. So at least, we see a stabilizing situation there. So we expect France to pick up further indeed in the second half. Another countries that we expect to contribute to the additional growth, greatest is Germany, Benelux. We also expect North America to be slightly better and Italy and Iberia will stay high.

Your second question on [ph] present (25:48)?

David J. Hancock

Head-Investor Relations

A

Yes. So, Nick, you're right that the data have been somewhat volatile over the second quarter and there's a significant holiday and trading day impact on the numbers especially in May. I would say the overall trend is one of improving underlying growth. So it's not just in the second half of the year that the comps get easier, but the underlying trend is also improving and we would expect to have both volume growth and sales growth to exceed volume growth, I'd say, by a couple of percentage points.

Patrick de Maeseneire

Chief Executive Officer

A

On your third question on the cost discipline and the regional managers, I can assure you that we are not holding back on investment in order to achieve our target. If you look at our growth rate in the second quarter, fair to say that we are somewhat below our peers, but you also have to see that we have still in the second quarter, a somewhat tougher base than our peers. And then you have seen, for example in North America, in the last four quarters we had really very good leverage. This quarter we don't have it anymore and it's also because our Perm continues to grow strongly and we are investing there. We're also investing in our Finance and in our Healthcare business. And of course, if the engineering development continues like it is, we will reduce there some capacity to make sure that we stay on our profit targets, but that's a normal business practice.

We also invested in the past in Italy. You see the good leverage there. We invest in Spain where we have continuous good growth since the end of 2013, so we are absolutely not investing. If we would do that, we would not roll out our IM platform this year because this is of course creating additional cost and we are just doing the normal business.

Now, on the outlook for the costs, if we accelerate now the growth into the second half, what the cost will be, maybe on the dropdown ratios, David will answer your question.

David J. Hancock

Head-Investor Relations

A

Yeah. So as you know, we said we need 6% growth or more for the full year to achieve the margin target. We had 4% in the first half. So, the simple mathematics implies an acceleration to high single-digit growth in the second half of the year, around 8%, and even because the second half has higher weighting than the first half, could even be a fraction below that, but rounded 8%. With that kind of growth, we would expect a little bit more cost growth year-on-year than we had in the first half, but the leverage, the dropdown ratio in the second half of the year should be higher than it was in the first half of the year.

Nicholas E. de la Grense
Bank of America Merrill Lynch

Q

Thank you. That's very clear on all points. Cheers.

Patrick de Maeseneire
Chief Executive Officer

A

Thank you. Next question, please.

Operator: The next question is from Mr. Konrad Zomer from ABN Amro. Please go ahead.

Konrad Zomer
ABN AMRO Bank NV (Broker)

Q

Hi. Good morning. Question on the North American performance. I think the progress you've made over the last few years has been significant, so it does explain a bit of the lower growth that you show today. But within the Professionals business, I would like to get a better feel for why you think that market is still not growing for you, and why you think that would improve as early as in the second half of this year.

Patrick de Maeseneire
Chief Executive Officer

A

Now, Konrad, indeed, in North America we see a little bit of slowdown. We said that also in the presentation. Now you have to see that we are growing in North America since the first quarter of 2010. Each quarter we have been growing year-over-year between 1% and 6%; most of the quarters it was 2% or 3%. So for us the 2% that we are having in the second quarter is not worrisome. It's a country or a region that has been growing for more than five years. You have to expect that, especially if we see what's going on in Canada, because without Canada, our growth would be in the U.S. alone 3%, and also we see a similar development in July. So we don't see this market now turning negative for the second half of the year.

As far as your question on Professional is concerned, what we see – and that's explaining the Engineering what David already outlined – the 9% reduction. 3% is coming from Canada. That's mainly oil and gas. But then what we don't see happening we get in the U.S. is the CapEx cycle. So, capital investments are not there. Defense is still somewhat under pressure, so that's where we see that Engineering is not picking up. Same thing is true for Germany, by the way, so this CapEx cycle still has to start.

Konrad Zomer
ABN AMRO Bank NV (Broker)

Q

Okay. And then...

David J. Hancock
Head-Investor Relations

A

Konrad, also to add in terms of the other Professional business lines, we have in Finance double-digit growth. We have in the Medical & Science business double-digit growth, and you see that IT is also starting to pick up. IT, we had a very good performance in 2013 and the early part of 2014. We slowed a little bit during the course of 2014, and that's starting to pick up again. So the overall Professional Staffing number was flat in the quarter. But as you can see, there're lots of different moving parts, and outside of Engineering & Technical, actually the performance is generally improving. And as I said, in some of those businesses in Finance, in Medical & Science, we have double-digit growth.

Konrad Zomer

ABN AMRO Bank NV (Broker)

Q

Okay. And then one quick follow-up, on the Office business in North America, the minus 4%, I think well explained by an ongoing slowdown in financial institutions, but can you tell us what proportion of your Office business in North America is related to financial institutions?

David J. Hancock

Head-Investor Relations

A

Sorry. Yes, the Office business, overall, is a little bit less than a quarter of the business in North America. And of that business, I would say approximately 15% to 20% would be related to financial services.

Konrad Zomer

ABN AMRO Bank NV (Broker)

Q

Okay. That's very helpful. Thank you very much.

Operator: The next question comes from Mr. Toby Reeks from Morgan Stanley. Please go ahead.

Toby W. Reeks

Morgan Stanley & Co. International Plc

Q

Good morning, guys. Can I ask a couple? I may be getting a bit too specific here, but on that 5.5% margin target, you're being very specific about requiring sort of 8% in the second half, or more or less 8%, the operating leverage will pick up. I think there's fewer bank holidays. Are you saying if you don't get to, say 7.5% for example, you would be below that target?

And then secondly, Alain, you've obviously been for a long time – you've highlighted in your opening comments about how you will continue the strategy with a focus on sort of financial discipline. Perhaps you could sort of talk about any potential differences you would perceive between your style of leadership and strategic direction relative to Patrick [ph] has had (32:55) on his final call, please.

Patrick de Maeseneire

Chief Executive Officer

A

Thank you for reminding me.

Toby W. Reeks

Morgan Stanley & Co. International Plc

Q

That's all right.

Patrick de Maeseneire

Chief Executive Officer

A

First of all, on the 5.5% growth. First I would like to point out that Q2 came in really in line with our own expectations, so perfectly in line with our own expectations. So we have had two times 4% growth and we always said, and I said it several times in individual meetings, if we have a growth below 6%, we won't achieve the target.

So we have to grow approximately 8% like David was pointing out, a little bit less in the second half because of the higher proportion, but that's what we have to grow now. Now, do we see that possible? Yes, we see that possible for two reasons. First of all, if you look at the GDP outlook for the Eurozone and that's at 65% of our business. GDP is expected to expand from 1.2% in the first half to 1.7%. And so this is sequentially quite a pick up. And you know we are a multiple of GDP. So, this will add to our business and we're already seeing that in France and Germany in some of the countries. Also in France, GDP is expected to grow from 0.8% in the first half to 1.2% and this will add as well.

Then, the second reason is the base effect. As you know, at the investor conference in Rome last year in September, we said that we saw a slowdown mainly in France, mainly in Germany, mainly in Europe. And you saw it in our overall numbers where we have grown up until July between 5% and 6% each month. We were 6% in the first quarter, 5% in the second quarter, and also in July we still have a growth rate. And then we saw a slowdown as from August. So, the base effect is kicking in as we speak. So this will also help in achieving the growth rate that we have to have.

And on the margin expansion, excluding one-offs, our EBITA margin is up approximately 50 basis points in the first half. Now we need 70 basis points. And because we had 4.8% last year, but we achieve this 50 basis points now with 4% growth. So of course, if we have now a higher growth in the second half, we're going to create better leverage. We're also going to be helped by the bank holidays in the fourth quarter, especially in Germany which will add 280 basis points to our margin in Germany and that's about 25 basis points – 23 basis points for the group. So this will all help to achieve the target. Also, if we look at our bottom-line development in June which is a month without holidays, we had a very strong EBITA margin of 6.3% and this is also very promising for us to achieve the target in the course of the second half and then for the full year.

Toby W. Reeks

Morgan Stanley & Co. International Plc

Q

Okay. Thank you.

Alain Dehaze

Regional Head Of France and Designated CEO

A

And on your second question about strategy, first of all, like I said in my introduction, I will provide continuity in our strategy. Somehow, Patrick and whole Executive Committee has worked on it and I was part of it during the last six years. So we will further build on it. Now, more specifically about the capital strategy, we will continue our shareholder-friendly approach with the first priority to invest organically in the business and in the development of the business.

Second priority is to continue the dividend policy we had with a payout ratio between 40% and 50% and a stable dividend. Regarding acquisition, so there also, we will keep a policy of no acquisition. And last but not least, in case of excess cash we will continue share buyback. On the other aspect, more the EVA, I also will continue [ph] this (37:00) discipline with a strong pricing and cost discipline, and somehow what you see today in France is also the result of four years' work with the highest profitability among the peer group. And again in Q2, an increase of 50 basis points to 6.6% EBITA.

David J. Hancock

Head-Investor Relations

A

Toby, just to add on to clarify on the dividend policy. So by stable dividend, we mean we would pass above the 40% to 50% payout ratio if we needed to, in order to keep the dividend at least flat, but in an environment where we have growing earnings growth, then clearly we will grow the dividend.

Toby W. Reeks

Morgan Stanley & Co. International Plc

Q

Okay. Very clear, guys. Thank you.

Patrick de Maeseneire

Chief Executive Officer

A

Next question, please.

Operator: The next question is from Mr. Hans Pluijgers from Kepler Cheuvreux. Please go ahead.

Hans Pluijgers

Kepler Capital Markets SA (Netherlands)

Q

Yes. Good morning, gentlemen. A few questions from my side. First of all coming back on the outlook statement, you really a little bit indicated by country a little bit some flavor of what you're seeing in trends, but could you give also some feeling on what you see, let's say, what you needed for the 8% growth? How do you see the breakdown by services, so by General Staffing, Perm, and Professionals, where do you really expect to see the acceleration, and especially on Perm, if the comps becoming more difficult. Do you also need an acceleration there to get to your target on the top-line growth?

And then secondly, discussing on UK, there you see Perm quite somewhat under pressure. But if you look at the market trends there still are quite positive. Your main peers you see an increase. Is there any specific reason behind that and how do you see it progressing?

And lastly, on North America. Also there on the second half, you expect to see some pickup again from the 2%. But at the same time, you see that comps have become more difficult there. So why are you so certain that North America could show a pickup in second half?

Patrick de Maeseneire

Chief Executive Officer

A

Okay. Maybe on your first question, just generally on Perm, indeed we expect Perm further to increase in the second half. We have done very well on Perm in the past quarters overall. As a group, growing 13%, now this quarter 12%, in the fourth quarter 14%, in the third quarter 15%. And despite the tougher base that we're having in the third and the fourth quarter, we expect our growth rates to pick up from where we are now in the third and in the fourth quarter.

You want to add something on Professional or General, David?

David J. Hancock

Head-Investor Relations

A

Sure. I think we would expect both Professional and General Staffing to pick up in the second half of the year. Clearly, the top-line is being led at the moment predominantly by Industrial growth. But as I said, over the second half of the year in IT in the U.S., we should start to see an improvement more generally. Clearly, the Professional Staffing business lags behind the General Staffing business in the recovery, but as we see recovery strengthen in Europe, we would expect to see some improvement in Professional Staffing growth as well.

Patrick de Maeseneire

Chief Executive Officer

A

So, on your question on the UK, the Perm development, minus 1%. Yeah, we are not satisfied with this development in this market, we should do better. Now, fair to say, that Perm was up 13% last year in Q2, so we have here a tough comparison base, but still we should do better.

And also to our defense, if I may say so, we don't have a lot of exposure to the sectors like construction, public that are growing very well in Perm, but then again we are not satisfied with this development. This is something that we have to fix. We had some management attrition in the past couple of quarters. It's a very aggressive market. And if people move to the competition, they usually move business with them. And that's what has happened in the past couple of quarters. We are fully aware of it, and we are in the process of fixing that situation, increasing stability for the future.

Now, what makes us more optimistic for North America because that was your third question. Again, what I said is North America has been growing year-over-year since the first quarter of 2010. So we are not expecting that in North America because we see now a little bit of slowdown from the 4% to the 2%, and it's also mainly by Canada that this would not tremendously change for the second half and that this would turn negative.

So you can expect maybe a somewhat better growth in the second half of North America, but I also don't want to say here that is going to be a lot higher. We see now a stabilization into July. We see it also in the recent numbers. So I again don't expect it to further go down, but I also don't expect it. It's not a country where I said that it would contribute a lot to the growth. I said, it would be in line or slightly better.

David J. Hancock

Head-Investor Relations

A

And I would just add one point on the sequential momentum in North America. We actually had a slightly better sequential trend in Q2 than we had in Q1 in North America. So that also gives us some confidence that the least stable outlook for North America makes sense.

Hans Pluijgers

Kepler Capital Markets SA (Netherlands)

Q

Okay. Thank you very much.

Patrick de Maeseneire

Chief Executive Officer

A

Thank you. Next question, please.

Operator: The next question is from Mr. Tom Sykes from Deutsche Bank. Your line is open.

Tom R. Sykes

Deutsche Bank AG (Broker UK)

Q

Yeah. Thank you. Morning, everybody. Just firstly on the bank holiday effect that you're speaking out. I wonder whether you could just say what the drag on the gross margin was due to bank holidays year-on-year which would have been different to the last quarter, please?

David J. Hancock

Head-Investor Relations

A

So Tom, the effect year-on-year is mainly coming from the Netherlands where we have two more bank holidays in Q2 this year than in Q2 last year. And as you know, it's a relatively small business for us. So it will be a few basis points of impact, but it's not a dramatic effect. What I would say is the difference in the Temp gross margin development in Q2 compared to the developments over the last four quarters was, that you may recall, that as of Q2 last year in North America we started to have a positive development on our healthcare costs, and we annualized that as of Q2 this year.

Tom R. Sykes

Deutsche Bank AG (Broker UK)

Q

Okay. Thank you. And then just on the comments of a similar growth rates. Obviously, you said that last time as sort of exit rate, and the first months as the next quarter. Are you saying that the rate of improvement is also similar that you're seeing an acceleration, but it's a similar pace of acceleration. Is that what you saw at the beginning of the last quarter? Because obviously to get to the 8%, it doesn't sound like you're at 8% now. So therefore, you're going to have to do faster than 8% for the remaining five months.

Patrick de Maeseneire

Chief Executive Officer

A

Again, Tom, you're absolutely right. We had in July a similar development as in the second quarter. But as I said earlier, you know this from our investor days, last year we had the growth between 5% and 6% every month the first seven months, so including July. So the base effect is only kicking in as from August, and then the GDP expansion at the second half in revenues is always more important than the first half, but the GDP expansion will only have its effect as from September, not in the summer months. So you're absolutely right.

And we see a gradual improvement. If we say 8%, we need 8% in the second half. You're not going to see 8% in the third quarter. So it has to pick up further in the fourth quarter to come to 8% for the six months. And again, knowing that in the third quarter we had 4% last year, and in the fourth quarter, we had 2%. The base effect will additionally add in the fourth quarter, helped by also the fact that we have two bank holidays less in Germany, which will of course expand the margin but also expand the business.

Tom R. Sykes

Deutsche Bank AG (Broker UK)

Q

Yeah. Okay. Great, thank you. And then just on the Professional businesses, sort of following on from what everybody else has sort of asked then. I know you've given clarity on the U.S. or North America, but also I mean your Professional businesses are down in the UK, France, and Germany as well. And so what is it that means at this stage, if that was a standalone Professional business compared to some of the listed peers, that's a pretty significant underperformance. So what are the key issues for you and why should we be looking to the businesses in, say, the UK, France, and Germany to get back to which may not have the sort of big contracts helping like maybe the U.S. does, please?

Patrick de Maeseneire

Chief Executive Officer

A

First of all Tom, as you know, our biggest Professional businesses are indeed in North America and UK. So France and Germany in that respect in the total of our portfolio is much smaller. So the effect on the group is also much smaller, of course. But like I indicated earlier, we haven't seen the CapEx cycle starting, also not in Germany. And in that respect for the Eurozone, we can really say that we are still early cyclical, as we see the Industrial business only picking up now, we see the business in France and Germany only turning positive now. So here, we are really only cyclical in Europe, so the Professional business can only pick up later.

As far as UK, this really has to do for the majority of the problem in our IT business and this has to do with the management attrition that I already mentioned also for our Perm because it's the same leadership, of course. And there also we are just not satisfied with our development. It's better to recognize the problem and to fix it than afterwards just say that we don't have a problem. So we know and we are aware of it.

Tom R. Sykes

Deutsche Bank AG (Broker UK)

Q

Okay. Thank you. And could I just ask one final clarification? The family allowance benefit in France -- was that about 50 basis points or [indiscernible] (47:46)?

Patrick de Maeseneire

Chief Executive Officer

A

For the total France business, 100 basis points still had the majority in the first quarter and we always said that it would be completed away for -- throughout the quarters. And for this quarter, it's not 50 basis points. I would estimate it more like 30 basis points for the second quarter.

Tom R. Sykes

Deutsche Bank AG (Broker UK)

Q

Okay, great. Okay. Thanks very much, Patrick.

Patrick de Maeseneire

Chief Executive Officer

A

Next question, please.

Operator: The next question is from Mr. David Tailleir from Rabobank. Please go ahead.

David Tailleir

Coöperatieve Centrale Raiffeisen Boerenleenbank BA (Broker)

Q

Yeah. Good morning, gentlemen. Two questions. Firstly, on the phasing of the cost of the rollout of the global IT platform, can you remind us of the phase-in costs in this year, and also maybe next year? And can you confirm that you started this in Iberia and that more countries will follow?

And then secondly, on the growth trend in outplacements, how can you confirm the acceleration in growth? Is that driven mainly by Europe or is it also visible in the U.S.? Thanks.

Patrick de Maeseneire

Chief Executive Officer

A

So, on Lee Hecht Harrison, I will take that question first. U.S. was flat. Canada was strong, and France was minus 1%, and those are our main markets for outplacement on the phasing of the cost, for [ph] IM (49:08)?

David J. Hancock

Head-Investor Relations

A

And first, just to add on the LHH trend. The market clearly, overall, is down and we are outperforming the market. I wouldn't say it's a trend of acceleration in what we saw in the second quarter, but we're clearly outperforming the market, but we wouldn't expect now to see the LHH business really accelerate into the second half.

David Tailleir

Coöperatieve Centrale Raiffeisen Boerenleenbank BA (Broker)

Q

And if I may, David, what you see in Canada, that is really a countercyclical effect, is that fair to assume?

Patrick de Maeseneire

Chief Executive Officer

A

Yeah, because in our starting business we are really down and we are hardly hit also by the oil and gas industry, and so we see the counterpart on the outplacement side. So there are [indiscernible] (49:53).

David J. Hancock

Head-Investor Relations

A

In terms of the IT spend and the phasing, you're right, we began the rollout in Japan and we have some cost associated with that. And the preparations for the rollout next year in Iberia. So there's some additional cost there. Overall, the IT spend in 2015 will be very similar to what it was in 2014 for the group as a whole. For next year, there will be a small additional cost for the preparations for the further rollout, but at a group level it's not going to be a material amount.

David Tailleir

Coöperatieve Centrale Raiffeisen Boerenleenbank BA (Broker)

Q

And then we talk about, let's say, €5 million to €10 million max, something like that.

Patrick de Maeseneire

Chief Executive Officer

A

Yeah, something in that range, maybe a little bit more, but that's going to be the range.

David Tailleir

Coöperatieve Centrale Raiffeisen Boerenleenbank BA (Broker)

Q

Yeah. Great. Thanks a lot, guys.

Patrick de Maeseneire

Chief Executive Officer

A

You also have to see that at the same time – once we have countries on the system, at the same time we will be able to decommission the older systems and that will reduce the cost. But of course, we are not there yet. So next year it will still add and then for the longer-term, it should compensate.

David Tailleir

Coöperatieve Centrale Raiffeisen Boerenleenbank BA (Broker)

Q

Great. That's very clear. Thanks a lot.

Patrick de Maeseneire
Chief Executive Officer
Next question, please.

A

Operator: The next question is from Mr. Alain Oberhuber from MainFirst. Please go ahead.

Alain-Sebastian Oberhuber
MainFirst Schweiz AG

Q

Good morning, everybody. I have two question. The first question is about the gross margin. You said that in Q2, gross margin improvement was 50 basis points mainly because of the FX. How much was mainly because of the U.S. dollar and how much was it of the euro?

And the second question in that is if the currencies stay stable, how much could we expect on gross margin improvement for the rest of the year for H2?

And the other question on another topic is regarding these €9 million of extraordinary expenses you recognized in Q2. For what were these €9 million?

David J. Hancock
Head-Investor Relations

A

So Alain, on the gross margin effect, or the currency effect, gross margin was up 60 basis points in total, of which 30 basis points came from currency effect and that's entirely due to the U.S. dollar. And assuming the same exchange rate as we have now going forward, we'd expect a broadly similar effect in the second half of the year, probably slightly less but – in the 20 basis points to 30 basis points of range.

Patrick de Maeseneire
Chief Executive Officer

A

And on your second question, Alain, on the extraordinary cost in the second quarter, so we had a €5 million of integration cost through the Knightsbridge acquisition, so for Lee Hecht Harrison. And then there's approximately €10 million for me and Dominik being announced in May that we are leaving the company and that has mainly to do with our long-term incentive plan with our share plans that normally would have been spread over a number of years which are now recognized because of the announcement that we've done in May, so we took this cost in the second quarter as we have to do, of course.

Alain-Sebastian Oberhuber
MainFirst Schweiz AG

Q

Okay. Thank you very much.

Patrick de Maeseneire
Chief Executive Officer

A

Next question, please.

Operator: The next question is from Mr. Matthew Lloyd from HSBC. Please go ahead.

Matthew G. Lloyd
HSBC Bank Plc (Broker)

Q

Good morning, gentlemen. Slightly longer-term question. Over the last few years, the number of temps actually going through an agency in France has been falling as a percentage. So I think roughly 20% of the French workforce are temps, but vast majority of those are direct. Why do you think that is? And is it true that that trend is beginning to reverse?

Alain Dehaze
Regional Head Of France and Designated CEO

A

Perhaps, I can take this question. So what you have seen over the last years is that a lot of manufacturing activities went down. I think the most obvious example is the automotive industry. They have reduced dramatically the usage of temps the last years. And what you see now is again a pickup of this activity, automotive, but also aerospace, retail. And I don't know if we have already mentioned that also in this call, the construction sector which was one of the biggest segment of this industry in France went down dramatically, and now has stabilized. If you see the development of the construction, it was minus 17% in Q1, minus 8% in Q2, and you see there also a stabilization, and I would say it should develop positively over the quarters to come.

Matthew G. Lloyd
HSBC Bank Plc (Broker)

Q

Thank you. Just one quick follow-up question. Do you think you have a strong enough presence in the sort of SME client base? Is that something that going forward Adecco perhaps needs to address, or do you think it's there just awaiting demand?

Patrick de Maeseneire
Chief Executive Officer

A

You mean for the group or you mean for France?

Matthew G. Lloyd
HSBC Bank Plc (Broker)

Q

I mean, for the group really.

Patrick de Maeseneire
Chief Executive Officer

A

As you know, for the group this is really a priority that we have defined six years ago under segmentation. We know if we compare ourselves to the market that we are overexposed to large accounts and underdeveloped in small countries – in small company business where the margin is a lot higher, where the delivery cost is also a lot higher but the bottom-line is much better. For example in France, we have developed a distribution channel only for the SME segment and it's growing very well and it's performing very well. We already did that in the past years in Italy and in Spain.

And we are in the process of doing that in other countries as well. So it's something that is still work in progress and it's a work that will never stop, because really if we compare ourselves to the market, the difference is quite high. That's also because of the nature of our business. Being the largest multinational company, of course, we have a lot of multinationals being our customer, but we are pushing that segment a lot.

Matthew G. Lloyd
HSBC Bank Plc (Broker)

Q

Okay. Thank you very much.

Patrick de Maeseneire
Chief Executive Officer

A

So before we go, I would like to say a few words, but David, would you like to add something?

David J. Hancock
Head-Investor Relations

A

Yeah. I just want to add one clarification on the answer to the currency effects on gross margin in the second half of the year. So, our current exchange rates, I said we'd see a 20 basis points to 30 basis points impact year-on-year. And in the second half, it's more 20 basis points than 30 basis points, I would say.

Patrick de Maeseneire
Chief Executive Officer

A

Okay. Thank you, David.

Patrick de Maeseneire
Chief Executive Officer

So ladies and gentlemen, that's it. And as you know, this is my last quarterly call with you, and I've done 25 and today's one is a bit strange because it is the last one, and because I didn't have Dominik on my side, but he helped us a lot in preparing the quarterly announcements for which my enormous thanks.

The last six years and a quarter were the best of my life, the most fun, the most warm, the most passionate. Thanks to you, our shareholders and analysts, and thanks to our associates, our customers, and my 32,000 fantastic colleagues around the world. I thank you sincerely for having given me the opportunity to be your CEO. It has been a pleasure and an honor for me to work for you. I promise you that my colleagues and Alain will continue the good work, and do what is needed to achieve the 5.5% this year and more and better beyond this year. I wish you all good luck, fun, and success in your personal life and in your professional life. And above all, I wish you a very good health.

Thanks again for letting me be your CEO in the past more than six years. I hope to see some of you on our Road Show in the coming days, and Alain and the team will speak to you again on November 5 for the Q3 results. Thank you very much for your interest in our company. Have a good day. 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.

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