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Adecco SA (ADEN.CH)

Q1 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Welcome to the Adecco Q1 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. Rolf Dörig, Chairman of the Board; Mr. Patrick de Maeseneire, CEO; and Mr. Dominik de Daniel, CFO of the Adecco Group.

Please go ahead, gentlemen.

David J. Hancock
Head-Investor Relations

Thank you. Good morning and welcome to Adecco's first quarter 2015 results conference call. To present to you today, I'm joined by Rolf Dörig, Chairman of the Board of Directors; Patrick de Maeseneire, Group CEO; and Dominik de Daniel, Group CFO.

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. First, Rolf Dörig will make some comments on the management changes that we announced this morning. Next, Patrick will present the operational highlights and an overview of the country performances. Dominik will then review the financials and finally Patrick will make some comments on the outlook. We will then open the lines for your questions before we end with some closing remarks from Patrick.

With that, Rolfe, I hand over to you.

Rolf Dörig

Chairman

Thank you, David, and good morning, ladies and gentlemen, also from my side. I'm very pleased to present to you today Adecco's newly-designated Chief Executive, Alain Dehaze. Following my introduction, Patrick de Maeseneire and Dominik de Daniel will present Adecco's first quarter results. We will take your questions at the end of this call.

After six years successfully leading the Adecco Group, Patrick has decided to leave the company at the end of August, and hand over his duties to his colleague, Alain Dehaze, on September 1.

Patrick, you know this, maybe joined Adecco in June 2009, six years ago, and the board of directors is very grateful to him for his outstanding contribution to the success of Adecco during this time. Together with a strong senior leadership team worldwide, Patrick implemented a winning strategy and strengthened Adecco's number one market position globally.

Patrick accelerated the growth into professional staffing and perm placement. And with the launch of the global IT platform, he prepared Adecco for the digital transformation. Under his leadership, Adecco's profitability increased to a historic record as you have already seen with the Q4 results and, of course, today's Q1 results release.

Together with a strong team, he built up the engagement of our over 31,000 colleagues worldwide with global programs such as Win4Youth or Adecco Way to Work, as well as with the Adecco Academy. He built a unique public presence for the world's leading HR solutions provider and laid the foundation for the company's future growth.

Patrick, on behalf of the board and the senior leadership, I want to already thank you today for your outstanding personal commitment and your dedication to Adecco.

Due to the CEO change, Dominik de Daniel has decided to leave the company at the end of July. Dominik joined the Group as CFO in April 2006, following Adecco's acquisition of DIS, Adecco's professional staffing business in Germany. Dominik established and led a strong finance organization globally. He made an outstanding contribution to Adecco's profitable growth during – and I would say so, during the most challenging times the HR industry has faced in its history.

With the introduction of the EVA approach, Dominik built the foundation for the strong financial discipline, leading profitability and strong cash flow generation. In addition to his role as Group CFO, he successfully led Adecco's global solutions businesses namely, LHH, Beeline and Pontoon and was instrumental in establishing our FESCO Adecco joint venture in China.

Dominik, the board of directors and I would like to thank you already today for your achievements and your contribution to Adecco. We wish you all the best already today personally and professionally.

Here, ladies and gentlemen, I'm very pleased that Patrick de Maeseneire was able to propose several strong internal candidates to the board of directors as his potential successors. After a thorough process, the board of directors has designated Alain Dehaze as Chief Executive of the Adecco Group as of September 1. Alain Dehaze, currently Regional Head of France and Member of the Executive Committee since 2009, will take up his new role as of September 1.

Alain is a proven leader with a successful and distinguished international track record. And has 15 years profound staffing industry experience. He joined Adecco in 2009, and since August 2011, has led our French operations, Adecco's largest market with around 23% of sales and 27% of operating profit in 2014.

Between 2009 and 2011, Alain was Regional Head of Northern Europe comprising Belgium, the Netherlands, Luxembourg, Denmark, Finland, Norway and Sweden. From 2007 until joining Adecco, he was CEO of Humares, an international professional staffing company based in the Netherlands. From 2002 to 2005, he was Chief Executive of the listed company Solvus.

Following the friendly takeover of Solvus by USG People in 2005, Alain had the overall responsibility for operations, including the integration of Solvus in his position as Chief Operating Officer and Deputy Chief Executive of USG People. Prior to that, Alain had executive positions in a number of European countries for Henkel and ISS. Alain is Belgian and is fluent in French, English, German and, of course, in Flemish.

The fact that the board decided for an internal successor stands for continuity. Adecco's strategy is clear. The company's leadership team will build on what has been successfully laid down in the past years by Patrick. The solid foundation of Adecco's worldwide operations and its leading market position are very good grounds for continued success.

Given the strong profitability in the first quarter, the positive outlook and the continued good progress on the six strategic priorities, we all remain convinced that we will achieve the EBITA margin target of above 5.5% in 2015.

Adecco forms a strong organization thanks to the passion and commitment I see at senior leadership conferences and when I meet colleagues in the countries where we operate.

Last but not least, let me take this opportunity to also thank the 31,000 colleagues around the globe as well as our clients, associates, and shareholders for their continued trust and support.

And with this, Patrick, I hand over to you.

Patrick de Maeseneire
Chief Executive Officer

Thank you, Rolf. I will say a few words myself on the organization changes after the Q&A session. But let me first focus on the highlights of the first quarter where my colleagues delivered again a strong performance. On this and the following slides, I will give all growth rates in constant currency unless otherwise stated.

We had revenues of €5.1 billion, an increase of 4%. This is an acceleration compared to the 2% growth in Q4 2014. Gross profit grew by 5%, and the gross margin was 19.1%, up 50 basis points year-on-year. The costs continue to be well-controlled. SG&A, excluding prior-year restructuring cost, was up 1% year-on-year and also up 1% sequentially. This resulted in an EBITA of €236 million. The EBITA margin was 4.6%, up 60 basis points year-on-year, excluding prior-year restructuring costs. This is our strongest ever margin in a first quarter.

When looking at our exit rates and the monthly trends during Q1, please note that January and March were heavily affected by differences in trading days in 2015 compared to 2014. So these monthly growth rates should be treated with some caution. April, on the other hand, doesn't have any material trading day adjustments and, therefore, can be seen as a clean month. Moving into Q2, we have maintained our growth momentum with revenue growth in April similar to Q1.

We now have a look at the first quarter operating performance in more detail. I will start with the revenue development by region. In Europe, revenues grew by 2% in the quarter compared to a decline of 1% in Q4. Conditions in France stabilized, and we saw a pickup in the Benelux, while Italy and Iberia again achieved double-digit growth.

In North America, growth remained solid, with organic growth of 4% compared to 6% in Q4. This growth was driven by strong performances in Industrial, Medical & Science, and Finance & Legal.

Growth in the rest of the world improved to 10% in Q1 compared to 6% in Q4. In Japan, revenues were up 7% in the quarter. In Australia and New Zealand, revenue growth accelerated to 9%. The 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 Q1 2015, revenues in Industrial grew by 5%, up from the 4% growth in the previous quarter.

Growth improved slightly in North America. Italy, Benelux, Iberia and Eastern Europe also achieved double-digit growth. And France improved, although still slightly declining versus the prior year. In Office, revenues grew by 4% year-on-year, up from 1% growth in the previous quarter. The improvement was driven by the U.K. and Ireland, Japan, the Nordics, and the emerging markets.

In Professional Staffing, revenues declined by 1%, while gross profit grew by 5%. Revenue growth rates in Medical & Science and Information & Technology improved, while Finance & Legal slightly slowed. Finally, within Solutions, the growth remains strong in our VMS, MSP, and RPO businesses.

We now have a look at the first quarter revenue development by service line. Temporary staffing is our largest service line. Growth here was 3% this quarter after 1% growth in Q4 2014. Revenues from permanent placement continued to grow strongly, up 12% in Q1 compared to 14% growth in the previous quarter. The growth in outplacement slowed further to flat this quarter from 3% in Q4 mainly due to softer demands in North America.

And now, we go to our main markets in more detail. In France, revenues were down 2% on the prior year. Revenues in our large Industrial segment decreased by 1%. Revenues in Office decreased by 8%, while in Professional Staffing, the decline was 4%.

From an industry perspective, we saw an improvement in the automotive sector but demand remained weak in construction. Perm revenues in France were up 8% this quarter. The EBITA margin was strong at 6%, up 120 basis points year-on-year. This quarter included a favorable one-time item, which added approximately 60 basis points to the EBITA margin in France.

In March, our revenues were down 3% adjusted for trading days. But April showed an improving trend, with volume growth slightly above than one seen in Q1.

We go next to North America. With revenues of €1.1 billion, North America now represents our largest segment by revenues. Revenues increased organically by 4% with growth of 7% in General Staffing and 1% in Professional Staffing.

Within General Staffing, we saw continued strong growth in the Industrial business at 14%. This was again driven by good demand from the logistics and technology sectors. The Office business declined by 1% in Q1 due to the softness in mortgage-related amount from financial services customers.

Within Professional Staffing, we saw growth of 18% in Medical & Science and of 6% in Finance & Legal. IT declined by 1%, and Engineering & Technical declined by 6%. Both segments will benefit in the second half from some recent larger wins.

In perm, we delivered another strong performance with revenues up 13%. The EBITA was 5.5% in the quarter, up 140 basis points year-on-year excluding restructuring costs in Q1 2014. In March, revenues were up 3% adjusted for trading days, while the growth rates in April was similar to Q1 as a whole.

Turning next to the U.K. and Ireland. Revenues overall were down 1%. Our Professional Staffing segment declined by 1% with both IT and Science & Legal also down 1%. Our Office business line was flat. Revenue growth in permanent placement continued to outpace that in temporary staffing. Perm revenues were up 6% in the quarter. Gross profit for the U.K. and Ireland grew by 4% in Q1. The EBITA margin was 2.2%, up 30 basis points compared to the first quarter last year. Revenues in March were down 4%, adjusted for trading days with April similar.

As mentioned previously, due to changes for some of our U.K. 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 the U.K. and Ireland. Excluding this impact, revenue growth would have been 4% higher than reported.

In Germany and Austria, revenues were down 2% in Q1. Our Industrial business line was down 2% in the quarter, while revenues in Professional Staffing fell by 3%. Engineering & Technical, which is our largest Professional Staffing business, declined by 6%, while IT grew by 5% and Finance & Legal by 1%. In our perm business, revenues continued to grow strong and were up 17%.

EBITA was €26 million, giving an EBITA margin of 6.3% down only 20 basis points year-on-year, and this, despite the high sickness rate in Germany in Q1. In March, revenues were flat adjusted for trading days with the further improvements in April.

In Japan, revenues grew by 7% in Q1 held by a positive trading day impact of around 3%. Both our General and Professional Staffing revenues were up 7%. In our perm business, revenues were up 6%. EBITA was €17 million, giving an EBITA margin of 6.3% up 150 basis points year-on-year. In March, revenues were up 2% adjusted for trading days, with growth in April similar to the growth rate adjusted for trading days that we have in Q1.

Finally, in terms of regional performance, I will touch briefly on some of our other markets. We continued to deliver strong revenue growth in Italy, with a growth of 17%, and in Iberia, which was up 16%. Growth improved in the Benelux and in Australia and New Zealand.

The Nordics was the only geographic segment where we saw a significant weakening in the top-line in Q1 compared to Q4. This was due to a worsening of the market in Norway, largely because of the impact of lower oil prices on the economy there. In Lee Hecht Harrison, revenue growth slowed to flat, while the margin remained strong at 31.5%. Yet again, Lee Hecht Harrison outperformed by far the market on the top- and bottom-lines.

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

Dominik de Daniel

Chief Financial Officer

Thank you, Patrick. Good morning, ladies and gentlemen. I will start with an overview of the P&L. Patrick already mentioned operating highlights in his introduction with revenues of €5.1 billion and EBITA of €236 million. EBITA increased by 28% or by 21% in constant currency and excluding prior-year restructuring costs.

Looking further down the P&L, the effective tax rate was 25% this quarter. Discrete events had a positive impact of approx 2% on the tax rate. Net income grew by 45% and basic EPS grew by 49%, 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, acquisitions 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 for the first year in four years, we were above the long-term trend, long-term growth trend in Q1 2015.

In Q1, we saw the greatest outperformance of the long-term trend in Italy, Iberia, Australia, New Zealand and Benelux, while we underperformed the long-term trend in the Nordics because of the weakness in Norway.

Next, let's have a look at the year-on-year gross margin evolution. The Group's gross margin was 19.1% in Q1 2015. Temporary staffing had a 30-basis point positive impact on the gross margin year-on-year, driven by our continuous strict approach to pricing and helped by the favorable one-time item in France. The growth in perm placements had a positive impact of 20 basis points.

Now let me discuss our cost base development in the first quarter. As always, we monitor revenue development closely and manage the cost base accordingly. SG&A in Q1 was up 1% compared to Q1 2014 in constant currency and excluding prior-year restructuring costs. Sequentially, our cost base was also up 1% in constant currency and excluding Q4 2014 restructuring costs, reflecting the normal seasonal pattern. FTE head count was stable sequentially.

Turning to the cash flow statement. In Q1 2015, cash flow from operating activities was €54 million. DSOs in Q1 2015 were 52 days, one day less than the prior year in constant currency.

In Q1 2015, the Group invested €20 million in CapEx and spent €26 million on the purchase of shares. To-date, under our share buyback program of up to €250 million launched in November last year, we have acquired 825,000 shares for a total consideration of €45 million.

Net debt at the end of March 2015 increased to €1.1 billion compared to €975 million at the end of December. Our net debt to EBITDA ratio was at 1 at the end of Q1 2015.

As usual, I will now give some financial guidance. Corporate costs this year are expected to be around €120 million. Interest expense, excluding interest income are expected to be around €65 million for 2015. CapEx for 2015 is expected to be around €90 million. Amortization of intangible assets is expected to be approx €35 million. For Q2, we anticipate an effective tax rate of approx 27%. SG&A in Q2 is expected to increase slightly compared to Q1. On an organic basis, mainly due to cost of contractual obligation related to the management changes announced today.

The Knightsbridge acquisition that we announced last quarter is consolidated as of April 1. Revenues for Q2 will be approx CAD50 million, but there has been no impact on EBITA as the underlying operating profit will be offset by integration costs.

With this, I hand over to you, Patrick.

Patrick de Maeseneire
Chief Executive Officer

Thank you, Dominik. Let me finish now with our outlook. Growth in Q1 accelerated held by an improving environment in Europe. Conditions in France stabilized, and we saw a pick up in the Benelux while Italy, Iberia and Eastern Europe again achieved double-digit growth. With 4.6%, we achieved our best-ever first quarter margin. In April, revenue growth was similar to the first quarter in constant currency and adjusted for trading days.

Based on the trends in our business and the current economic outlook, we expect revenue growth to accelerate in the second half of 2015, also helped by an easier comparison base. In Q1 2015, we achieved with 4.6% our best-ever first quarter margin following on from our record fourth quarter profitability of 5.3% in Q4 2014. And given this and given the positive outlook and based on the good progress on our six strategic priorities and our continued price and cost discipline, we remain convinced we will achieve our EBITA margin target of above 5.5% in 2015.

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

QUESTION AND ANSWER SECTION

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

Chris C. Gallagher
JPMorgan Securities Plc

Q

Hello. Good morning. Just a quick question on France. First of all, what was the one-off? And second of all, how are you seeing the competitive dynamic of passing through the family allowance?

Patrick de Maeseneire
Chief Executive Officer

A

I will do the second part of your question, Chris. If we look at the pricing environment overall, not only in France but overall, I would say it stays pretty rational. Now, you have for sure heard from one or the other competitors that they, in some markets, would invest part of their cost savings into the markets, which is a nice and polite way of saying that they go after some market share, of course. And so here and there, in a few markets, we see some price attitude changes, but it's not dramatic I would say. What is very important that we, as the global market leader, will not do this and continue to focus on profitable growth. So we want to grow at least in line with the markets with leading profitability.

But we said also from the beginning that this family allowance that is coming on top of the CC subsidies, that it would be very difficult to keep this onboard throughout the year. In the first quarter, we didn't have to share a lot of this, of course, into the market because it was only announced at the end of December. But throughout the year, we expect the majority, not all of it, but the majority of this to be completed away.

And the second...

Dominik de Daniel
Chief Financial Officer

A

This is Dominik speaking. So this was related to those security costs. We had already 10 years ago, a dispute with the administration for social securities in France, and we finally won the case at the court and therefore received last quarter this amount.

Chris C. Gallagher
JPMorgan Securities Plc

Q

Okay. And one final question if it's okay, the candidates for the new CFO, are there any internal candidates, or is that something you're willing to share?

Rolf Dörig
Chairman

A

This is Rolf the Chairman speaking. Thanks for that question. Dominik decided to leave. He has a very strong finance organization and a very strong local country CFOs. So we will be in a position to appoint and communicate his successor in the coming months, be an internal or an external one.

Chris C. Gallagher
JPMorgan Securities Plc

Q

Okay. Thank you.

David J. Hancock
Head-Investor Relations

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

Good morning, guys. Just two from me. One on the U.S. and one on Germany. So in the U.S., growth looks like it modestly slowed in March and April. I mean, that's in line with some of the macro data that we see. I was just wondering if you can give any color in terms of what you expect going forward in the U.S., whether you would kind of see a bounce back there or whether perhaps we're more in a kind of steady state of trending towards maybe low-single digit organic.

And then in Germany, conversely, that has actually picked up towards the end of the quarter. I'm just wondering what you're seeing in terms of volume and price there and what you think the impact of the wage increases at mid-year might be on volumes going forward. Thanks.

Patrick de Maeseneire
Chief Executive Officer

A

I will take your question on the U.S., and Dominik will take your question on Germany. Indeed, we had a growth of 4% in Q1 after a 6% in Q4. You have seen with the very strong development in profitability. And in April, we are also more or less at the same level, I would say, as Q1 where March was 3%, in April we are back at the Q1 level.

Now, our U.S. team stays very positive on the developments throughout the year. You have seen that in the quarter IT was still slightly negative and Engineering a mid-single digit negative. But thanks to recent wins, we see that situation to improve as from the summer. And our more retail-oriented businesses like Medical & Science, Finance & Legal still did very well and we also expect that to continue.

So all in all, indeed, in a very strong economical environment in the U.S., we, despite the lower growth that was announced for the first quarter, but we're getting used to that, I think the outlook, I'd still be positive for the U.S. market.

On Germany, Dominik?

Dominik de Daniel
Chief Financial Officer

A

If we look to Germany, we had at the beginning of the year a declined rate, and throughout the quarter it improved. It wasn't much; we were flat. In April, we are growing somewhat in Germany.

Now, the wage inflation in Q1 was really, really minor because the latest wage inflation for the collective wage agreement for the temporary workers was implemented in January 2014. However, as of April 2015, we see some wage inflation from this collective wage agreements, so the temps related to this wage agreement get some wage inflation now, and that's also one reason why [ph] Office (31:49) now starts to recover somewhat.

Nicholas E. de la Grense
Bank of America Merrill Lynch

Q

Do you anticipate any impact on volumes as a result of the wage increases or do you think the kind of...

Dominik de Daniel
Chief Financial Officer

A

I mean, let's say we have not yet seen a major boost in volumes in Germany. Germany in this respect compared to other countries is lagging behind. However, if we look overall to the weak euro, I would be surprised that at a certain stage of the year, this will not kick in, so it should come in throughout the year. Besides this, you have to see that Germany has done quite very well. Last year, we had still in the first quarter very strong growth and Q2 was also still very solid and started to slow really down in Q3. So there is really, let's say, a much easier comp coming in from a year-on-year development as we move into Q3.

Nicholas E. de la Grense
Bank of America Merrill Lynch

Q

Okay. Thank you very much, guys.

David J. Hancock
Head-Investor Relations

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. First question for Mr. Dörig on, of course, the management changes, and maybe also – and a follow-up on that for Patrick. First of all on, let's say, the candidates, I understand there were several candidates internally for the CEO position. Could you maybe elaborate a little bit on that, also the decision for Alain?

Secondly, Patrick, a question to you. The reason that you're leaving, is it because you already have some other opportunities you want to pursue? And then on the operations, first of all on the U.S., could you maybe a little give some indication how the growth in the Industrial segment developed through the quarter? And fourthly on the buybacks, a relatively low level of buybacks in Q1, could you give maybe some flavor on that? And now with the share price [ph] under (33:51) pressure, do you expect to be somewhat more aggressive as of now?

Rolf Dörig
Chairman

A

Shall I take your first question, Hans? Thanks. Maybe preliminary remark, it was Patrick's and the board of directors' call when he took over in 2009, already the one-off or that he should make sure that he could promote an internal successor in some time. And he built – Patrick built a strong senior leadership team globally and a lot of talents on the bench over the last – each year. Having said that, the board of directors was really pleased that Patrick was able to put forward several strong internal candidates, as you mentioned, as his potential successors to the board.

Now, to clarify again, while Patrick decided in the course of 2015 to hand over his duties to his successor, this is slightly a little bit different to Dominik's leaving. The board knew that Dominik wanted to become a Chief Executive. He was one of the candidates, and the board was also aware that we might lose Dominik. Nevertheless, the board has unanimously appointed Alain.

And you understand that I think it's inappropriate to disclose or to comment on individual decisions taken. Nevertheless, as you mentioned Alain, let me highlight three points because I think this is important to understand.

First, it's an internal solution. Alain is, since 2009, in the Executive Committee, so he knows Adecco, he knows his colleagues, his colleagues know him very well. So this is clearly a signal and stands for continuity.

Second, he has a strong international track record. He has 15 years of very profound operational and leadership experience in the HR staffing industry. If you have a look at his CV, he led different listed companies as well.

And last point, he successfully led in Adecco, the Northern Europe region, and successfully restructured the French business in a very difficult economic and also regulatory environment over the last years in France.

Patrick de Maeseneire
Chief Executive Officer

A

On your second question on my leaving and do I have already another opportunity? You have to understand that including my first time with Adecco, I'm now 10 years with the company, six years as CEO. And I think Dominik and I, we can look back at a rather good period, though, our job is never finished. But we indeed changed the profile of the company and became leader in outplacement, became leader in professional staffing. And even if I say it myself, but I'll let the judgment over to you, I think we have done well on our six priorities, and we're showing record profitability in Q4 and Q1.

We have a target out there of 5.5%, and we are convinced that we can deliver on that target. And that's something that I also; I want to specify that that I also would have loved to deliver myself towards the end of the year. But then in discussion that I had with the board and with Rolf, I think it's also fair that if the new budget process starts in September, that this is done by the new CEO, in this case, by Alain, so that there is a continued responsibility but also accountability. Because otherwise, you know how it goes. It's not my budget, it's the budget of the previous one, and we want to make sure that the budgets also in the future are achieved as we have done in the past six years. So that's why I thought it was very fair to leave at the end of August and do the handover in August to Alain, so that there is also again accountability and responsibility into next year.

Now, what I'm going to do next, to be honest, I don't know. I know what my plans are and what I would like to do, but it takes two to tango, and I was waiting for this announcement now today, that's hopefully some other companies start to look at me and maybe offer me a job. And because I decided a long time ago that I will continue to work until I die, which I plan to do at 87 years old, and so I didn't approach any other company myself and in the past months, and I will continue to concentrate in the next four months on achieving also good results in the second quarter, and doing then in August a decent and good handover to Alain. But again, I hope that some companies will in the coming months look at me and then – that I will discuss with him that I can continue to work in the near future.

Dominik?

Dominik de Daniel
Chief Financial Officer **A**

I will take the question regarding the Group in the U.S. Industrial business. And we have seen a pretty stable trend throughout the quarter. And if you look also in the Industrial basis in Q4 it was up 13%, Q1 14%. So pretty stable trend basically throughout the quarter, but we have of course, to consider is the Canadian part is weaker, that was part of North America. It's also one reason why our growth slowed from Q4 to Q1. And if you look only to the U.S., it would have slowed only 1% but as Canada is weaker, it slowed 2%. So – and we see basically a similar growth rates for April in our Industrial business in the U.S.

And share buyback we announced. We launched this new program back in November last year, and we stated we will take one year to fulfill this program and of course, we want to buy as much as possible shares with the amount which we invest. Now, for Q1, we bought not a lot back, that's correct, but you have also to see that our window to buyback share was rather narrow given the release of Q4, so there was also less than, less opportunities to buy back shares and our aim is to fulfill this program until the end of this year. That's what we'd like to do.

Hans Pluijgers
Kepler Capital Markets SA (Netherlands) **Q**

Okay. Thank you.

David J. Hancock
Head-Investor Relations **A**

Next question, please?

Operator: Your next question from Mr. Matthew Lloyd from HSBC. Your line is open.

Matthew G. Lloyd
HSBC Bank Plc (Broker)

Q

Good morning, gentlemen. A couple of questions from me. The first one, Dominik has done quite a lot to sort of improve the credibility of Adecco with a strict EVA focus. I wondered if the board of directors consider this to be sort of central to the future of Adecco and how it's managed. And then to follow up, again a board question really. Is it the view of the board that shareholders would prefer acquisitions or buybacks in future?

Rolf Dörig
Chairman

A

Okay. I think these questions are addressed. To me first question, yes, of course, we keep the EVA focus. We continue and we keep also the strict cost discipline.

Second question, I would answer it in the following way. We would like to continue to use excess cash or cash flow in a shareholder-friendly manner.

Matthew G. Lloyd
HSBC Bank Plc (Broker)

Q

Thank you.

David J. Hancock
Head-Investor Relations

A

Next question, please.

Operator: The next question is from Mr. Paul Sullivan from Barclays.

Paul D. Sullivan
Barclays Capital Securities Ltd.

Q

Yes. Good morning, everybody. It's sort of a follow-up from the previous question and directed to Rolf. What do you and the board see as the key priorities for the new CEO, come August and September?

And then following up from that, just a technical question on the cost payments in the second quarter. Presumably, the bulk of the sequential uplift is due to the contractual obligation, so that's about €10 million or €15 million. What happens to LTIPs and other things which were, clearly, somewhat dependent on the delivery of the 2015 margin target? How do they get cashed out or paid out?

Patrick de Maeseneire
Chief Executive Officer

A

Your first question on the key priorities goes to Rolf, of course, and then Dominik will take your second question.

Rolf Dörig
Chairman

A

First question, again, the fact that we appointed an internal successor stands for continuity. So this is also clear as far as strategy is concerned. So the strategy is clearly defined. We will further base on it meaning that the new CEO, first of all, should make sure in the fourth quarter that 5.5% target is really achieved.

And then secondly, to build on the strategy which is certainly continue to build and often grow our Professional businesses, further optimize the General Staffing businesses with certainly a particular focus on segmentation and probably further grow into fast-growing businesses, so of course, while remaining what I just said before, remaining the cost leader in our industry.

Dominik de Daniel
Chief Financial Officer
A

Regarding the costs related to the management change, so they are in Q2 and there will be high-single digit million euro amount for Patrick and me. So it's not between €10 million and €15 million, it's high-single digits, so it's rather closer to your lower end of the range and considers, of course, all the shares and shares which we basically granted Patrick and me during our tenure, and depending on relative share price performance, on margin targets, of course, they [indiscernible] (44:10) in the future when the company is achieving.

Patrick de Maeseneire
Chief Executive Officer
A

So to clarify, we only fulfill contractual obligations. No severance payments are made.

Paul D. Sullivan
Barclays Capital Securities Ltd.
Q

Okay. That's very clear. Thank you.

David J. Hancock
Head-Investor Relations
A

Next question?

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

Alain-Sebastian Oberhuber
MainFirst Schweiz AG
Q

Good morning, gentlemen. Alain Oberhuber, MainFirst. I have three questions. The first is about Japan. This lower organic growth in March, is this a trend going the other way, or should we see an acceleration or an improvement again in Q2 of organic growth?

The second question is on France and the extraordinary income you have there. Am I right that's about €7 million on EBITA? That's the question. And the other question is how much is the impact then on gross margins for the Group? And the final question is why was the free cash flow so low despite the lower DSO to 52 days?

Patrick de Maeseneire
Chief Executive Officer
A

Alain, I will take your first question and Dominik will take your second question on the impact on the gross margin from the one-off in France and then on the cash flow.

On Japan, we indeed had a very good growth of 7% but you have to see that there was a positive business day impact and that the growth in the first quarter is more like 4%. We see a similar development in April and it could be somewhat higher for the full quarter but let's aim for a similar development so we don't see a slowdown. The reason why our profitability is so strong in Japan is because we won in the course of last year or towards the end some additional outsourcing contracts with high margin. And they increase, of course, then our profitability. So we are happy with the profitability development in Japan.

And on the top-line, I would go for maybe a slightly higher development in Q2, but based upon the 4% not based upon the 7%, or a similar development. So that's what we plan for second quarter.

Dominik de Daniel
Chief Financial Officer

A

Alain, for your question number two and three, and you're very close. So you said €7 million; it's €1 million less, so €6 million is the impact exactly, and this is for the whole company impact on the overall gross margin of 10 basis points. If you – since this is part of the temp margin only look to the temp margin impact, then it's 15 basis points.

Patrick de Maeseneire
Chief Executive Officer

A

And then on the cash flow development.

Dominik de Daniel
Chief Financial Officer

A

I'm sorry, on the cash flow development, I mean, this is basically only the timing differences because our DSO, underlying DSO are even down one day. And you always have some timing difference when we seek the money from our clients or when we have to pay labor costs or VAT. We had the bigger outflow for a VAT payment in one of our jurisdictions, and I'm very confident that in Q2 this will [ph] reverse (47:21).

Alain-Sebastian Oberhuber
MainFirst Schweiz AG

Q

Thank you very much.

David J. Hancock
Head-Investor Relations

A

Next question, please.

Operator: The next question comes from Mr. Michael Foeth from Bank Vontobel. Please go ahead.

Michael Foeth
Bank Vontobel AG (Research Firm)

Q

Yes. Good morning, gentlemen. Just one question actually from my side. In France, you have a high exposure to construction, and my question is, can you give us some insight on what the trend in construction were in Q1 and maybe remind us what it was in Q4? And then, what are you seeing in the French construction sector going forward, and could this be a swing factor in the second half of the year? Thank you.

Dominik de Daniel
Chief Financial Officer

A

So, Michael, if you look to our French business, construction is roughly 12% of our sales, and the weakest growth rate we have actually seen in Q4, it was down 22% after having had in Q3 minus 14%. Now in Q1 it was minus 16%. So it's mainly because of the easier base because we have already seen some weakening in the first half last year. We're not seeing in the short-term a major change from this minus 16%. And then we have to see in Q3, Q4. I think it's too early now to speculate whether this construction business will recover or not, but the base is especially becoming easier in Q3 and even more in Q4.

Michael Foeth
Bank Vontobel AG (Research Firm)

Q

Thank you.

David J. Hancock
Head-Investor Relations

A

Next question, please.

Operator: The next question is from Andy Grobler from Credit Suisse. Please go ahead.

Andy C. Grobler
Credit Suisse Securities (Europe) Ltd.

Q

Hi. Good morning. Just a couple of questions from me; firstly, to Patrick. After a very successful six years at the helm, why decide to leave this year? Why not wait until next year when the margin target has been delivered?

And secondly to Rolf, you mentioned that the excess cash should be used in a shareholder-friendly manner. What do you consider to be the most shareholder-friendly use of that cash? Thank you.

Patrick de Maeseneire
Chief Executive Officer

A

Andy, I – on your first question, why now? You know we have a target out there, and I think -f I'm not going to take any commitment here but several times I have been asked by the investors, hey, if you achieve now the target, what is going to be your next target, because that's the kind of question you always ask. And I always said, hey, it would not be serious to already launch a new target before we have achieved this one. But it was my clear intention to indeed deliver on the promise together with Dominik until the end of the year. But when we had this discussion of my intention then to leave afterwards, I thought again that it was only fair that the new team and that the new CEO would discuss the budget for next year with the colleagues and would commit on it and be accountable for it.

And if – and I don't take a commitment here because it's not up to me anymore, but if a new target would be launched, it will be a mid-term target again. And if you launch a target, you should also be accountable for it and deliver upon it. So if I would have launched a new target at the end of the year, I had to take or I should have taken again a commitment for many years to stay on Adecco. And I'm 58 years. I always say I don't look like, but I am 58 years, and I still want to do a lot of things in my life and in the next 30 years. And so I think it's the right moment also because of being sure that we will achieve this target, and that Dominik and I can really look back on a very, very good period together.

So that's why it's now. It was my intention to do it later really. But I think it's only fair to the new organization and to the continuity of the company to do it at the end of August.

And if you allow me, because Rolf allows me here to take your second question on the excess cash and on shareholder-friendly. When we decided not to do acquisitions – and again, I won't take a commitment here that we don't do acquisitions in the future. But when we decided not to do acquisitions, we were asked by investors what are you going to do with your cash? And from the European investor perspective, there was a clear preference for dividend, and that's why we increased our payout ratio, and that's why we also defined a floor for the dividend for the future. And what I know from the board is that they want to continue this.

And we said, from the American investors, the preference is more on the share buyback side, and we clearly said, hey, we do this with the excess cash, but you have to go out of the assumption if acquisitions would again be done in the future – and again, I don't want to promise anything that we will do acquisitions or not do acquisitions, but at least until the end of 2015, we said we would not do acquisitions. If acquisitions would be done, we would not do share buybacks anymore because then that excess cash would not be there anymore. But the dividend payout, the floor and the payout ratio are there to stay.

Rolf Dörig
Chairman
A

Maybe I can add here from my side. We are clearly committed to keep our existing dividend policy, number one. And secondly, I do not expect now, based upon Patrick's remark, transformational acquisitions or deals in the future, not at all.

Andy C. Grobler
Credit Suisse Securities (Europe) Ltd.
Q

Okay. Thank you very much.

David J. Hancock
Head-Investor Relations
A

Next question?

Operator: The last question comes from Mr. Konrad Zomer from ABN AMRO. Please go ahead.

Konrad Zomer
ABN AMRO Bank NV (Broker)
Q

Hi. Good morning. First of all, I'd like to say that I think the two of you have done a phenomenal job over the years and I think you deserve all the credit you can get for it.

A few quick questions. The first one is, can you tell us what the proportion of your gross profit is that comes from permanent placement? The second question is, if organic top-line growth for the Group was not to accelerate because of easier comps, do you still think that a level seen in Q1 would be enough to get to your 5.5% margin target?

And my last question is on the U.S. We heard Manpower talk about a negative impact on the manufacturing side in the U.S. because of the strength of the U.S. dollar. Is that something that you've identified yourself as well in your U.S. business?

Patrick de Maeseneire
Chief Executive Officer

A

Konrad, first of all, thank you for your kind remark. On your first question, Dominik will take your third question. On the first question, what is the proportion of perm in our gross profit? It's approximately 10%.

And second, on the 5.5%, I think we have said several times in the past that we need a strong mid-single digit growth so above 6% in order to achieve that growth. So we – the good thing is that we are accelerating into Q1 with – from – in the 2% in Q4 to 4%, and we expect higher growth rates into the second half based upon two things. First of all, the base becomes a lot easier.

If you see, last year, we were growing between 5% and 6% in the first seven months, so we have 6%, 5% and then we had 4% and 2%. So the base becomes easier in the second half. And then, second, the economic outlook has also improved and with the lower euro, this should start to have an effect on Germany, on other countries as from the second half onwards or as from the summer onwards. And we also already see a slight improvement although, like Dominik said on Germany, it's still not making through. But with this economical outlook and the ease of base, we expect a higher growth, of course, into the second half.

But we need also that higher growth in order to achieve that target, because we were clear to you that with a growth of below 6%, we would not achieve our target. But you have seen that in the presentation for the first time, we have a plus in our long term if we compare the quarter-over-quarter evolution against our long-term trend. So it's the first time since the first quarter of 2011 that we have this, and this is promising for the rest of the year.

On the U.S., Dominik?

Dominik de Daniel
Chief Financial Officer

A

Maybe just to add one more point to Patrick's remark. We had a positive development into Q1 which is a very important and good starting point. So one, we would need now for the rest of the quarters is to be in line with the long-term trend in some, and then we would have this growth which we need to achieve the 5.5%.

And one other remark, because I don't know whether all analysts have this in their calculation. In Germany, we had in Q4 two less bank holidays. And as you know, the people are fully employed, and we basically show the bank holidays when they occur. So in Q4, this will boost the German margin quite significantly and will help on top and basically margin for the whole Group. So just from a modeling point of view.

And regarding the U.S., we have not seen in our current business our Industrial business is slowing. It's doing quite well. Our Office was decelerating into Q1 because of financial services mortgage area was weaker but the Industrial business not.

That being said, if no doubt export-oriented companies are producing in dollar, of course, one or the other will have less demand. I think this is what we have to expect. On the other hand, having such a big exposure to Europe and the fact that Europe needs those recover, we are net positive even both that maybe throughout the year it will have one or the other impact in our Industrial business, but we have not seen in our business.

Konrad Zomer
ABN AMRO Bank NV (Broker)

Q

Okay. Thank you very much.

Patrick de Maeseneire

Chief Executive Officer

Ladies and gentlemen, dear analysts and investors, as announced this morning, I will indeed leave Adecco. And including my first year with Adecco as I already said, I'm now 10 years with the company, and so I decided it's time for a new challenge. And sometimes you have to close a door to see what other doors are opening.

Let me first congratulate Alain for becoming the new CEO of what is not only the largest and the best but also the most beautiful HR services company in the world. Congratulations, Alain, and good luck.

This is not my last call with you. I will do the Q2 call together with Alain and be there, of course, to answer your questions.

For Dominik, this call is, however, his last investor call with Adecco. And as you all know, Dominik has had an incredible positive impact on our company. I have worked since 35 years now, and Dominik is really the best professional I've ever worked with. Without him, I would be nowhere. In the past, exactly six years, Dominik and I, we worked hard and we also played hard. We formed a true four-eyes team, and we did good business and we became very good friends.

Since you as well on the sell side as on the buy side has voted Dominik, year after year the best CFO in business services, I hope I can speak in the name of all of you and thank Dominik for nine years of great contribution to Adecco. And I wish him all the best luck, I hope together with you, in his future career.

Believe me, Dominik, with your personality, leadership, energy and brain, your future success is guaranteed. You have an entire life in front of you. You want to add something?

Dominik de Daniel

Chief Financial Officer

Thank you for your kind words, Patrick. Today, this was my last earnings call for Adecco. I have done in this last nine years 40 investor calls. I would like to take the opportunity to thank you for great and inspiring time during investor calls, of course, roadshows and also the Investor Days, which we hosted. I really, really enjoyed it. I want to thank you for your interest in Adecco, your trust in us as a management team and, of course, for your great questions.

My aim was always to answer your question in a very transparent and direct way, and at the same time give you guidance and insights with both, the short-term and the long-term perspective. And believe me, it was for me the utmost important thing to always deliver what we said. I'm really looking forward to see all of you during the upcoming roadshows or at another occasions in the foreseeable future.

And this is also the last call that Patrick and me together will present Adecco. I would like to take the occasion to thank my boss and my very good friend for the best six years in my professional life. Patrick, it was really amazing, with the kind of passion and dedication we drove this great company with great people and strong culture. It's the aim to always exceed our own expectations. Thank you for all the trust and support you gave to Adecco and to me. Thank you very much.

Patrick de Maeseneire

Chief Executive Officer

Thank you, Dominik. And once more, in the name of all of us, thank you for what you have done and achieved for Adecco. We will all miss you. And here, ladies and gentlemen, I would like to close the call. Thank you all for your interest and confidence. And we speak again on August 11.

Thank you. Have a good day.

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. Good-bye.