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Adecco Group AG (ADEN.CH)

Q3 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, good morning. Welcome to Adecco Q3 2017 Results Analyst Conference Call. I'm Mirona, the Chorus Call operator. I'd 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. Nicholas de la Grense, Head of Investor Relations, accompanied by Mr. Alain Dehaze, CEO and Mr. Hans Ploos van Amstel, CFO of Adecco Group. Please go ahead, gentlemen.

Nicholas de la Grense
Head of Investor Relations, Adecco Group

Good morning and welcome to the Adecco Group's third quarter 2017 results conference call. To present to you today, I'm joined by Alain Dehaze, Group CEO and Hans Ploos van Amstel, Group CFO. Before we start, please have a look at the disclaimer regarding forward-looking statements in this presentation.

Let me give you a quick overview of today's agenda. Alain will first briefly present the highlights of the quarter. Hans will take over to review the financial performance and comment on the outlook. Alain will then discuss our strategic and operational progress and initiatives, and we'll then open the lines for your questions.

And with that, Alain, I hand over to you.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, Nick, and good morning, ladies and gentlemen. Welcome to our third quarter 2017 results investors call. I will start immediately on slide 5 with the key highlights of the quarter. In the third quarter, the revenue momentum has continued, 6% organically and trading days adjusted. In fact, the same momentum as in the last three quarters. Also to be noted, a solid performance in the perm.

On the profitability side, Q3 EBITDA margin of 5.4% and this including investing in our strategic agenda. We see also that the underlying head count productivity improvement has continued with our FTE up 2% organically. Again, managing the productivity is a key focus area for us.

Also, a focus area is building global brands and that's why we are streamlining all portfolio and we are taking in this quarter the one-time non-cash charge of €129 million.

Also in this quarter, a very strong cash flow generation with 93% over the last four quarters and as a result, ratio net debt to EBITDA of 0.8 time by the end of September.

Regarding the outlook, we entered Q4 with a momentum slightly above the third quarter, but we will face tough comparables. At the Capital Market Day in London, we have given you the opportunity to get more insight about our refined strategy and also an update on our financial commitments.

Since the Capital Market Day, we have first announced the launching of YOSS, the new platform co-developed with Microsoft for freelancers and larger enterprise. And also, two limited add-on acquisition in Professional Staffing and Solutions, BioBridges and Mullin, both in the U.S. So, as the leader in our industry and as you can see, we continue to perform and we invest to transform and innovate.

And with this, I hand over to Hans for more insight on the financial performance.

Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

Thanks, Alain. The sales growth continued in the third quarter. Sales increased 6% in line with the first half results. France, Southern Europe, and the Benelux Nordics region are driving the growth momentum. We see the underlying strength in the European economy and are making the right investments to close the growth gap in France. In the North America and UK, General Staffing region, we're putting the actions in place to grow our market share which is important to drive the growth.

In the Germany, Austria, Switzerland region, we're pleased with the strong double-digit growth in Professional Staffing and with the growth in permanent recruiting. The results in Switzerland are in line with market. In Germany, the integration of Adecco and Tuja will bring us to the number two in the market and enables us to strengthen our market position, yet it will take time to return to market growth.

Yes, we are committed to accelerate the growth and capture a higher share of the economy as we communicated during the Capital Market Day. Profitability remains strong while investing in the strategic agenda. We delivered a 5.4% EBITDA margin, down 10 basis points versus Q3 of last year. Remember that we're investing in our strategic agenda. In Q3, we invested 25 basis points in GrowTogether and the Digital Ventures. These initiatives will deliver profitable growth. GrowTogether [indiscernible] (05:56) €50 million productivity savings in 2018 and €250 million or 100 basis points by 2020. The new Digital Ventures add new sources of growth and will enhance the margin.

Looking at the markets in more detail, a few [indiscernible] (06:16). France delivers continued strong profitability. The comparison base was impacted by a release of Social Security [ph] approvals (06:25) in Q3 of last year. This has a 30 basis point impact. Secondly, we're making the investments to accelerate the growth.

In North America and UK General Staffing, margins were impacted by the investments in new front office tools as part of our GrowTogether initiatives. Margins would have increased when adjusting for these investments. In the UK Professional Staffing, the margin was impacted by the UK market situation.

The German, Austria, Switzerland region, profitability was stable while we're investing in growing our Professional Staffing business with strong results. Iberia delivered a strong margin. The comparison to Q3 of last year is impacted by the cost for reorganizing the outsourcing business last year. In the Rest of World, our focus to drive for profitable growth is paying off.

Analyzing the EBITA performance in more detail. Gross margin was down 20 basis points. The Beeline divestiture had a negative impact of 10 basis points. This leaves a net organic decrease of 10 basis points. The sales growth in permanent recruiting helped the gross margin by 10 basis points and the gross margin impact between LHH and our outsourcing business was neutral for the quarter. This leaves a 20 basis point reduction in the underlying temp gross margin.

Moving to SG&A, we drove strong operating leverage and are investing in GrowTogether and the new Digital Ventures. We delivered 6% sales growth with only a 2% increase in head count. SG&A increased by 5% and about half the increase reflects the investments we're making for the future. Our conversion ratio from gross profit to EBITA remains strong at 29.4%. This confirms our productivity leadership while we invest in strengthening the core of our business with GrowTogether and expands the portfolio with the Digital Ventures to capture new sources of growth.

Turning to cash and balance sheet, cash conversion continues to be strong. Cash conversion was 93% for the last four quarters. DSO of 53 days versus 52 days last year was driven by the regional business mix and the timing of the quarter-end. Net-debt-to-EBITDA improved from 1 times EBITDA last year to 0.8 times this year.

Looking at the outlook, the growth momentum remains positive. September exit rate is 8%. The positive momentum continues into the fourth quarter. However, we need to remember that the comparison base for the last quarter is more challenging.

Back to Alain to talk from Perform to Transform and Innovate.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, Hans. Now, let's look at our strategic and operational progress during this third quarter. As I said in my introduction, we are aiming at combining performance and transformation and innovation to accelerate our growth and enhance our margin. And as part of the innovation agenda, we have launched two weeks ago at HR Tech in Amsterdam, YOSS. YOSS is a marketplace for freelancers and large enterprises on which I will zoom in a few seconds.

During the third quarter, we also strengthened our global partnership with Mya Systems. We rolled out the solutions at 11 customers in the U.S. and now already seeing the potential to significantly improve productivity. Just as a reminder, Mya Systems is a company having developed Mya, the artificial intelligence-enabled chatbot we presented to you during the last quarter and also at the Capital Markets Day in London.

Also this quarter, we have done two limited add-on acquisition in the U.S. First, Mullin, a career transition business in New York, allowing to further strengthen our market leadership in the U.S. And then, BioBridges, allowing us to enhance our group life sciences presence in the U.S.

As we mentioned previously, we continue to streamline our global brand portfolio to focus on a small number of stronger global brands. Distinct global lead brands allow us to better leverage digital channels, achieves economy of scale and drive market differentiation. We have to maximize our impact in the market towards candidates and clients, and this is one important way to do it. As a consequence of the branch streamlining, we wrote down the value of certain trademarks during the third quarter.

Now, let's zoom on YOSS. What is YOSS? YOSS is a brand dedicated to those who have decided to be their own boss. It's a marketplace for freelancers and large enterprise, providing a range of on-demand support services to freelancers so that they can focus on their work, on what they love to do.

As we presented in the Capital Markets Day, the freelancers are the heartbeat of the future of work. More than half of the workers will have income coming from freelancing activities in the U.S. in 2025. Already today in Europe, 9 million freelancers are worth 270 billion assignments invoiced to customers. The [ph] dig (13:13) economy is likely to grow to a value of $1,300 billion in the coming years.

YOSS is a unique solution for freelancers and corporations that has its roots in the best of the human resources world and the best of technology world. Indeed, it has been created by the Adecco Group and developed by Microsoft. This partnership brings market-leading expertise to the start-up. And the platform addresses the key challenges both the freelancers and the corporations are facing.

For freelancers, YOSS is taking over the administrative burden towards the information requirements of the large company. The platform also offers benefit, insurance to the freelancers. YOSS managed the invoicing and the cash collection process, which we find to be a common challenge for freelancers. And also, it has to be noted that the freelancers get paid in 72 hours.

For the clients, YOSS provides full visibility on external resourcing by reporting on their total [ph] spend, (14:30) by reporting about the profiles of the freelancers they are recruiting. YOSS also meets their security and compliance needs, which is very important for large corporates.

Freelancers are vetted in advance. Their documents are uploaded on the platform and are legally screened. And also, [ph] their right (14:54) to work is confirmed.

YOSS is a safe solution. Microsoft provides its renowned expertise in IT development, management and this allows us to ensure the highest level of IT security and data protection. This is a top priority for us and a core part of our values.

Now, some key dates regarding YOSS. First of all, after the launching in Amsterdam, we will launch the platform on November 14 in France under a beta version. Then we will have a [ph] few (15:31) full launch in France during the first quarter 2018, and we will start the international rollout in the second half of 2018.

So in conclusion, freelancers are the heartbeat of the future of work, and YOSS represents the inroad of the Adecco Group in this huge and growing big economy. The freelance market is likely to grow to a value of $1,300 billion in the coming years. It is, in fact, three times bigger than the temporary staffing market.

YOSS reflects also the three distinctive features of our approach, the way we are driving Digital. First, it is a co-creation and a partnership with the aim to work with the best companies, the best people, with best ideas, leveraging technology to embrace the megatrends and capture exciting opportunities. Second, it is about monetization with a focus on bringing the idea to benefit the bottom line. And third, it is about dedicated organization and strong governance.

At our recent Capital Market Day (sic) [Capital Markets Day] (06:53), we updated you on how much opportunity this changing world of work is offering us, thanks to the megatrends and our multiple competitive assets. Our recipe here is on three words or actions: Perform, Transform and Innovate.

In Perform, we commit to continue to drive the business forward in the disciplined, return-focused way that you are accustomed to.

In Transform, we are strengthening our core business, driving growth by enhancing client and candidate experiences and expanding into new segments. And to accelerate this, we have a dedicated program called GrowTogether, in which we are transforming our cost structure, improving productivity by leveraging technology and digital solutions.

And finally, we [ph] innovate. We innovate (17:50) by capturing growth opportunities in new frontiers, providing solutions and services that are complementary to our existing portfolio and where we can build real competitive advantage. This is the purpose behind our Digital Ventures.

By putting this strategic agenda and initiative at work, we are driving change in the business, creating differentiation. By performing and transforming and innovating, we combine revenue growth, stronger EBITDA margin and progressive dividend policy.

It is a virtuous circle with the revenue growth, inducing EBITDA margin by offering more value-added services and efficient delivery models. All of this turning in strong cash flow generation. We are a cash-generative company even in a downturn. This means we can commit that each year we will pay a dividend, at least in line with the prior-year dividends. And we are committed to deliver leading total shareholders' return.

Now, coming to the concluding messages. First, in the third quarter 2017, we have made great progress on our strategic agenda to Perform, Transform and Innovate. We are on track to make the [ph] world work (19:18) for everyone by driving our strategic agenda and working on our strategic initiatives.

We continue to perform with positive growth momentum and another quarter of strong productivity. In September and October, this growth momentum has been slightly above Q3 2017. We are facing a tough comparable in Q4. We achieved this while investing in our key strategic initiatives, GrowTogether and Digital Ventures. And we [ph] grow together (19:56). We are transforming the core of our business to drive differentiation and enhance productivity. With the Digital Ventures, we are innovating by leveraging technology to take us into attractive adjusted markets and enhance the growth and the margin.

Lastly, I would like to mention something we are [ph] practically (20:22) proud of. At our core, we remain a people business, and the commitment of our 33,000 colleagues is our greatest asset. That's why we are so honored and delighted that the Adecco Group has been awarded the second place amongst 6,600 multinational companies in the recent global Great Place to Work survey.

I thank you for your attention. And now, I would like to open the floor for the questions. And to be fair for everyone, may I ask you please to limit yourselves to two questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question is from Paul Sullivan from Barclays. Please go ahead, sir.

Paul Sullivan
Analyst, Barclays Capital Securities Ltd.

Q

Yeah. Morning, everybody.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

[ph] Hello (21:38).

Paul Sullivan
Analyst, Barclays Capital Securities Ltd.

Q

Hello, morning. Can I just ask you, firstly, on margin trends. Going into the fourth quarter, what are your expectations, and can you identify the moving parts, both at the gross level and the SG&A?

And then going to YOSS, can you just maybe give a bit more color on the business model, and how you generate revenues, and how you envisage that evolving? And if I understand it correctly, it's not necessarily a placement model, but it's a sort of administrative outsourcing model that you're tapping into there. Is that correct?

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Yes. On YOSS, this is really what you call a marketplace, a marketplace when you have this typical search and match function. So you have freelancers and you have enterprise [ph] having needs (22:33). And, yeah, the platform is searching and matching, let's say, the offer with the supply. So that's the typical function we know of intermediation, but it is fully taking place digitally.

What is quite, let's say, different and quite unique is that we are taking over the administrative burden. Also, it's a marketplace offering, what we call, on demand benefits and insurance. Also, the YOSS will take care of the cash collections. We will pay also the freelance in the 72 hours. So that's on one side, let's say, the unique advantage for the freelancers.

Now, for the companies, we know that this enterprise and especially the large enterprise [ph] are very (23:31) regarding the compliance and the security. And there, thanks to our knowledge and thanks to the partnership with Microsoft, we are offering a solution, which is fully compliant. For example, regarding data privacy, which is also fully compliant regarding all the administrative paperwork that has to be done, also the freelancers [ph] would be (24:04) vetted. We are also offering reporting tools for this larger enterprise, because today large enterprise are a little bit somehow, on one hand, afraid to tap into this freelance labor force because of this compliance issue [ph] in turn (24:22), and on the other hand when they are tapping into this huge reservoir of labor force, it's not structured. A lot of individual departments are tapping into this. There is no real price agreement and so on. And thanks to YOSS and thanks to access to this large enterprise, we will also structure this market, not only making it compliant and secure, but also to structure it on both sides.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Hans here. Just quickly on the fourth quarter. If you look at our gross margin, this quarter we have [ph] temp (25:01) gross margin at around minus 20 basis points. We expect that [ph] trend to carry forward into the fourth quarter at a (25:06) similar level. What is important to remember in the comparison base is two items, which are important. One is the German working days, which will be unfavorable into the fourth quarter. That is about 20 basis points negative impact. And remember, last year, we had a favorable benefit in workers' comp, and that was around minus 20 basis points. So same trends, and then minus [ph] 2 basis points or 3 basis points, yeah, in that comparison of Germany in (25:35) workers' comp. If you look at SG&A, we would expect the seasonality to be the same as last year, which is around 4% quarter-over-quarter.

Paul Sullivan
Analyst, Barclays Capital Securities Ltd.

Q

Great. Thank you very much.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

You're welcome.

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

Hans Pluijgers
Head of Research, Kepler Cheuvreux SA (Netherlands)

Q

Yes. Good morning, all. Question on the sales trends, because, yeah, a little bit misunderstanding, maybe your forecast and the actual rate for Q4. You're talking about 8% organically and trading days [indiscernible] (26:20) a slight improvement. Is the 8% trading days adjusted or should we still adjust for that?

And then also, in respect to your statements or, let's say, interview on Bloomberg, you said that you expected 2018 performance likely to be in line with 2017. How should we read that?

And then, the second question, again, on...

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

The second question probably – I didn't catch the point with the interview on Bloomberg. Sorry...

Hans Pluijgers
Head of Research, Kepler Cheuvreux SA (Netherlands)

Q

There was a statement that 2018 performance would be likely in line with 2017. That was, let's say, on Bloomberg, the statement you apparently made. I don't know what levels, but how should we read that and what was really said?

And then secondly, on the gross margin, you already indicated for Q4, but how do you see, let's say, the impact of the changes in the CICE for next year?

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Yeah, I can start with the CICE and then Bloomberg. So the CICE, yes, next year there will be a decrease from 7% to 6%, [ph] say, sale (27:37). It means for us gross impact of €30 million. We are deploying action to try to mitigate this €30 million that we will potentially lose due to the change of regulation. I would say it's a matter of best effort to mitigate as much as we can. The question is always can we mitigate all. That's the ambition we have, but again it's an engagement of best effort.

Now, regarding Bloomberg, I think there have been some misinterpretation. The point was regarding especially the macro environment and so on, and if the perspective of 2018 were more solid than one year ago, and what I said is that according to the GDP development forecast and so on, I think that the economy was more solid than one year ago. And with the limited visibility we have today in our sector, you know that we have a limited visibility, this trend and this momentum is continuing next year.

Hans Pluijgers
Head of Research, Kepler Cheuvreux SA (Netherlands)

Q

Okay. That's really been helpful. And then on the exit rate, because you were saying 8% organically and trading days adjusted, but at the same time [ph] you're (29:10) talking about a slight improvement from 6% to 8%. So I don't see it really as slight. So is this the trading days adjusted to 8% or should we still adjust for the [ph] total, (29:21) talking more about 6.5% on the exit rate underlying?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

The exit rate is trading days adjusted. So the 8% was adjusted for trading days, and September was a month where we had less trading days. That has an impact on it. If you look how we look at the [indiscernible] (29:41) we were pleased with that exit rate because that was a good exit rate. When we enter the quarter, we have good momentum, but what we recognized is that from a comparability level in Q4 that it's a more challenging quarter from the [ph] comp (30:00). So good exit rate, good momentum going into the quarter, but we need to be confident of the fact what Q4 was last year, and that makes the comparison more challenging.

Hans Pluijgers
Head of Research, Kepler Cheuvreux SA (Netherlands)

Q

And [ph] let's say I (30:12) remember that through the quarter last year, the growth accelerated. So it's more, let's say, back-end loaded than front-end loaded [indiscernible] (30:21).

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

That's fair. We had a strong November-December period last year.

Hans Pluijgers
Head of Research, Kepler Cheuvreux SA (Netherlands)
Q

Okay. Thanks.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

You're welcome.

Operator: The next question is from Toby Reeks from Morgan Stanley. Please go ahead, sir.

Toby W. Reeks
Analyst, Morgan Stanley & Co. International Plc
Q

Hi, guys. I've got two, if I can. The first is around YOSS and – I mean, there's a few in there, but you can probably just say yes or no for them. So what is Microsoft's involvement after the launch? Is it involved in the international rollout in 2018? Is YOSS something that can be integrated into clients' existing VMSs? And I think what Paul was asking earlier was about the revenue model. Maybe you could tell us is it the freelancers or the company that get charged? So which end of the network are you charging?

And then my second question is around the mid-single-digit declines in U.S. IT and Medical and Science. I'm just wondering, do you think that it's existing FMS platforms are contributing towards that in the U.S. at the moment? Thank you.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

Okay. On YOSS, Microsoft is our partner not only for the product and the beta version we have developed in France, but will be also our partner globally. So also partner for the international expansion.

Toby W. Reeks
Analyst, Morgan Stanley & Co. International Plc
Q

Does that mean that promoting across their platform?

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

I don't know exactly if they will promote it through their platform, but for example, I think three or four weeks ago, there was a Microsoft event with [ph] 14 attendants (32:06) in Paris and we were on stage together presenting the solution to the French customers.

Toby W. Reeks
Analyst, Morgan Stanley & Co. International Plc
Q

Okay.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

The point here is that around 80% of the development of the platform is based on Microsoft [ph] basic standard (32:24), which is also the beauty for the international expansion. So it's duplicable and scalable, and 20% will be local. Microsoft is not only, I would say, a developer, but it is also a business partner. So Microsoft is also incentivized on the success of the platform, even if it is 100% owned by us, including all the intellectual property.

Now, regarding the business model, VMS [ph] in France (33:01), at some point of time we will indeed have to look at the integration in various platform. I'm sure there will be not only opportunity not only in VMS, but also in other sectors.

Regarding your questions, revenue model and so on, it would be a revenue based on transaction fee. So we will get a percentage of the total revenue invoice, yeah, and we will collect [indiscernible] (33:45) percentage of revenue from the flow. And also, we will get a fee from add-on services. So we will offer benefits and so on. And on this, we will get a typical fee for that.

Toby W. Reeks
Analyst, Morgan Stanley & Co. International Plc

Q

Okay.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Quickly answering your question on the Professional Staffing, of course, at the total level, we saw in North America 2% growth, and that is consistent growth. I would say that we deliver consistent strong performance in Professional Staffing, especially if you compare it to what you see our competitor is doing. So we're pleased with the results. Underlying, there was, indeed, a little bit softness in the Medical and Science, but Medical and Science in the mix for us is a smaller part within the Professional Staffing. So we saw overall consistence at performance in Professional Staffing.

Toby W. Reeks
Analyst, Morgan Stanley & Co. International Plc

Q

But the IT part, there's a softness around that. You don't think there's more sort of freelance work going onto other FMS platforms in the U.S.?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

What we see two things on the freelancers. Actually we leverage in some of the Professional Staffing business already. There are some freelancers. So, we offer solutions for our customers, which includes some of our business in the U.S already the use of freelancers. What we see in the IT sector is continuously and that's predominantly with large financial institutions, yeah, a strong cost focus built into their business and the usual services.

Toby W. Reeks
Analyst, Morgan Stanley & Co. International Plc

Q

Okay. Okay. Cool. Thanks, guys.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

You're welcome.

Operator: The next question is from Denis Moreau of UBS. Please go ahead.

Denis Moreau
Analyst, UBS Ltd.

Q

Yes. Hello. Hello, everybody. Two questions. The first one regarding the impairment charge, can you detail which brands has been discontinued, if you can? And my second question is on LHH, for which organic growth was down 5%. And I would like to know how you actually managed to improve the profitability of LHH. And if you could [indiscernible] (36:06) on the outlook for Q4 for this activity, please?

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Yeah. Indeed, LHH went down with 5%. It means that LHH is gaining market share because if we look at the number two worldwide, it's more – losing 20% of revenues. So, we are gaining market share at LHH. It's also – you know that this activity is a countercyclical activity. So, it reflects also the good state of the world – the economic world.

Now, regarding how we cope with this decreasing revenues, a large part of costs at LHH is variable because you know that we are using, I would say, freelancers there also to do the coaching activities in the transition period of candidates there and so that we can easily adapt almost immediately the number of the coaches we have according to the number of people we have in the various program. So, it's a very dynamic and very flexible business model we have at LHH. And you see that we are continuing to have a very strong profitability at 25% EBITDA.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

On the question on the global brands, we are not yet in the position to disclose which brands are involved because we're in the middle of the execution of it. And there is also some people [ph] concerns and these things (37:50). So, we cannot disclose at this stage. But I want to just reassure you of a few things.

We are combining the brands to leverage their global strength and that is not only important for our customers but also in a digital world, you don't want to build websites for a multiple of brands but [indiscernible] (38:12) the brands. So, this will give more synergies and with that this will create value. This is something we already announced in our annual report in 2016 that we were continuing this journey.

So, there's no value lost. This is a pure accounting technicality. We are creating more value. The reason why that is this is very complex U.S. GAAP is when these companies were bought, we separated the goodwill and the trademarks for indefinite life. That piece now we have to adjust in the balance sheet. In essence from an economic point of view, you should increase the value of the goodwill with the amounts you take down the trademark, but accounting legislation on the U.S. GAAP isn't allowing you to do that. But just to reassure you there's no value lost and this will strengthen our brand portfolio going forward.

Denis Moreau
Analyst, UBS Ltd.

Q

Understood. And does that mean that we may have another impairment charge in Q4 as you are still in the process of evaluating that? Or is that the only change we should have?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG
A

Yeah. No, this is the only charge you will see that's important to mention. We have taken the decision with that we have to do the accounting booking into the quarter, but the execution of the decision will come in, in the couple of quarters to come. So, the accounting entry goes on the day we take the decision; the execution of the decision we will do over the quarters but will have no more impact till we have completed this.

Denis Moreau
Analyst, UBS Ltd.
Q

That's very clear. Thank you.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

Welcome, Denis.

Operator: The next question is from Tom Sykes, Deutsche Bank. Please go ahead, sir.

Tom Sykes
Analyst, Deutsche Bank AG
Q

Yeah. Morning, everybody. Just firstly...

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

Good morning, Tom.

Tom Sykes
Analyst, Deutsche Bank AG
Q

Thank you. Well, firstly a couple of questions related to your investment and the cost of the investment. Could you maybe just say, well, what exactly are you putting money into now into the U.S., UK and France? Is it people, infrastructure or just maybe some clarity on what exactly it is you're doing there.

And with regards to the sort of broader issue of your other stakeholders and works councils and how that's progressing, do you feel comfortable [indiscernible] (40:42) cost savings is still going to be what you had originally laid out [indiscernible] (40:48) would be at the Capital Markets Day?

And then just on the U.S., obviously, it's a bit weak in General Staffing and that's down on a year which was down last year and we've obviously had a couple of years of wage rate growth. So, could you just explain what is happening in the U.S. given that it seems quite a strong labor market at the moment, please?

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

Yeah. Regarding the U.S., if you look at the result of Q3, we have 4% in Professional Staffing – sorry, we have 2% in Professional Staffing, we have 4% in Permanent Recruitment. So, yes, it is a modest growth, but we are pleased with this growth [indiscernible] (41:41)

Tom Sykes
Analyst, Deutsche Bank AG

Q

[ph] Your general is still down 5% or 3% trading day adjusted rate (41:43).

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

I'm coming to that.

Tom Sykes
Analyst, Deutsche Bank AG

Q

Yeah.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

I think it's important to make the distinction between the various business. And so, there we are – let's say, we are positive about this growth, even if it is modest, but it is the result of [indiscernible] (42:04) business growth.

On the General Staffing, you are right. We also see the opportunity there to make, let's say, the right investment to also put in place our strategy so that we can generate more growth and more profitable growth and take profitable market share. We had done a couple of things. First of all, you know that we have changed the leadership last year with Federico taking the overall leadership of the General Staffing for both the U.S., UK and Canada.

Now, by the end of this year, the segmentation will be fully deployed. So, meaning, the carve-out of the onsite business from the regular branch network business, we see in the regions where we have done that that we are growing, we are growing and we are taking profitable [ph] market there (43:07). This will be completed.

And last but not the least, we have, let's say, rolled out the commercial program, and it's called CCPM, Customer and Candidates Program Management, in which we are identifying all commercial activity regarding the number of [ph] visits, number of offers and bonds (43:28). So, all of this is in progress and we are expecting results in the quarters to come.

Tom Sykes
Analyst, Deutsche Bank AG

Q

Yeah. Thank you.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

On your question on GrowTogether, we are going from what I call the soft investments to investing in real stuff because we're in delivery mode now, which is something we discussed in the Capital Markets Day. So, the investments [ph] though (44:01) are those real technology and that's split between GrowTogether and the rollout of the new Digital Ventures [indiscernible] (44:10).

So, that's important to know and they go across a multiple of countries. We recognize those cost in the countries. You see that we're investing in U.S., we're making investments in France, we do that in the Benelux, so that 25 basis points is in the markets, it's not in the HQ, it's real investments. That's in line with what we communicated at the Capital Markets Day and what will also be in line that we delivered the first benefits next year by €50 million through productivity savings and our goal is to strengthen that to €250 million in 2020.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

Thank you, Tom.

Tom Sykes
Analyst, Deutsche Bank AG
Q

Okay. And, sorry, just with regards to the head count reductions that you outlined, that you didn't want to be particularly pushed on to the negotiations with unions or works councils then are you feeling confident on that progress?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG
A

Yeah. Sorry. I forgot to answer that [indiscernible] (45:18). Yeah. We are in constant [indiscernible] (45:24). This is part of our business, but we're not seeing we'll have an issue there. And you should remember, when we grow our business then we wouldn't need to add head count that the productivity can also be delivered when the business is going in a different way. So, there will always be people changes. But when our business grows 6%, then we could do that going forward with no head count adjustment. That will be cool because I think one side benefit we haven't talked as clear on Digital Ventures and GrowTogether, they bring down the marginal cost of growth. They will allow us – and in our type of businesses, the more we have digital solutions, we can faster add to the growth at a lower cost. So, the flexing up and down is something beyond the €250 million, which we're looking at. It's just the structural element of that that gives us an enormous strategic competitive advantage going forward.

Tom Sykes
Analyst, Deutsche Bank AG
Q

Okay. Thank you very much. Could I maybe just a follow-on on the U.S., though, in the 8% and the slightly improved organic growth, is that including an improvement in U.S. or is that across the group or is that more Europe, please?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG
A

The momentum, you mean?

Tom Sykes
Analyst, Deutsche Bank AG
Q

Yes, exactly. The slightly faster growth you were seeing at the end of the quarter.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG
A

I think what we would say is that [indiscernible] (47:00) the company level and I think we'll keep it at the company level and when we disclose Q4, we can give some color because it's always [ph] high for (47:08) one month to see a trend.

Tom Sykes
Analyst, Deutsche Bank AG
Q

Okay. Thank you very much.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

Thank you, Tom.

Operator: The next question is from Konrad Zomer, ABN AMRO. Please go ahead.

Konrad Zomer
Analyst, ABN AMRO Bank NV
Q

Hi. Good morning. Just one question. You mentioned that your Digital investments took 25 basis points off your EBITDA margin in Q3. Do you think that in basis point terms will increase or decrease in the next few quarters?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG
A

Hans here. The 25 basis points between Digital and GrowTogether, the GrowTogether and Digital are precisely what we discussed at the Capital Markets Day. What we said at the Capital Markets Day is that next year, the investments of GrowTogether and the productivity savings will come to a breakeven. So, they won't negatively impact the margin and should start to improve our margin, and that we would increase the Digital funds and investment and that would replace the 25 basis points.

Konrad Zomer
Analyst, ABN AMRO Bank NV
Q

Sorry, I've missed the last bit, I think.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG
A

Next year, you will see the same level of investment, but it will be on the Digital Ventures.

Konrad Zomer
Analyst, ABN AMRO Bank NV
Q

Okay. Thank you very much.

Operator: The next question is form Andy Grobler, Credit Suisse. Please go ahead, sir.

Andy Grobler
Analyst, Credit Suisse Securities (Europe) Ltd.
Q

Hi. Good morning. Just one for me, if I may. Just coming back on your [indiscernible] (48:49). I just wanted to clarify what you had said. So, within that business, the revenue that you will be generating is a fee-based revenue. So, it's nothing from the markup on the wages of the freelancers. You're just going to take a small percentage of whatever the total wages of those freelancers are – is a bit like beeline in the past. Is that correct?

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

It is correct. So, we will have a fee on the transaction, which would be the transaction fee. And we will also get a commission for the other services we will offer in the marketplace.

Andy Grobler
Analyst, Credit Suisse Securities (Europe) Ltd.
Q

And in terms of who pays that fee, is that going to be the client or the freelancer?

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

Yes.

Andy Grobler
Analyst, Credit Suisse Securities (Europe) Ltd.
Q

Which one?

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

In this case, yes, it's the freelancers, because it will be deducted from the invoice and the flow – let's say, the flow of the money.

Andy Grobler
Analyst, Credit Suisse Securities (Europe) Ltd.
Q

Okay. Great. Thank you very much.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

It will be collected directly from the flow.

Andy Grobler
Analyst, Credit Suisse Securities (Europe) Ltd.
Q

Okay. Thank you.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

But, it is invoiced to the freelancers to be clear.

Andy Grobler
Analyst, Credit Suisse Securities (Europe) Ltd.
Q

Yeah. Okay. Brilliant. Thank you very much.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

Yeah. You're welcome, Andy.

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

Matthew Lloyd
Analyst, HSBC Bank Plc
Q

Good morning, gentlemen. A couple from me. In the U.S. in the generalist business, what's happening to fill rates? Is it that you've got vacancies and are struggling to fill them or is it that you're not getting vacancies? Because there is obviously some growth in the U.S. market even if most of that would appear to be value rather than volume.

And then, my second question is just in terms of Adia in terms of placement sales, dare I say it, profit, what's happening to that business in Switzerland or London? Is it growing rapidly? Just a bit of an update on where we are with Adia.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

Yes. On Adia, yes, it is growing rapidly. We see that month after month, quarter – now it's the beginning, we don't have – I'd said that much comparables. But, it's really growing fast. At some point of time, we will give more color on that. But, yes, we are very pleased. So, we are now in two countries. We are preparing the rollout in two other countries, full in preparation. So, that we can start before the year-end in two other countries, that for Adia.

Now, on the U.S., about the fill rates, I would say, especially in Q4, we will see the scarcity coming in certain region of the U.S., because you will have the peak season, especially in online retail and logistics and so on. That's why you see also some inflation. But, I would say that the fill rate at this stage is okay. Hans, if you want to [ph] elaborate (52:14)?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG
A

Yeah, maybe to add a couple of points. I think part of the reason why the U.S. is more challenging is that, while there is the month that's like Alain says, especially on these steeper ramp-ups [indiscernible] (52:28) that filling the order is just a more challenging task. I wouldn't say, it's the only thing. We say, we want to drive more growth in the middle of the market having the segmentation strategy to drive our market share, but at the moment, filling orders is more challenging than it was in the past. And that's with ramp-ups we have, we need to continuously watch. But, it's one part of the answer.

Matthew Lloyd
Analyst, HSBC Bank Plc
Q

And do you have the capacity in any parts of the market, smaller client. So, perhaps, even in MSP and RPO kind of deals to, just start pricing for that scarcity. If you got truck driver or a security guard with 17% wage rate inflation in security guards, suggesting that they're scarce, can you say the markup is going to be higher?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG
A

I think in Professional Staffing, you see a little bit more [indiscernible] (53:24) I would say in General Staffing. What we do see in General Staffing is there is some wage inflation which includes the bill rate, but I must say our large customers [ph] are still very high (53:36). It's a competitive market.

Matthew Lloyd
Analyst, HSBC Bank Plc

Q

Yes. But presumably, if your competitors don't have a candidate, it's not as competitive as it used to be.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

I think in General Staffing, we don't see that type of dynamic yet.

Matthew Lloyd
Analyst, HSBC Bank Plc

Q

Okay. Thank you.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

[indiscernible] (53:58) but we don't see it.

Operator: The next question is from Kean Marden, Jefferies. Please go ahead.

Kean Marden
Analyst, Jefferies International Ltd.

Q

Good morning. I have a quick question for Hans. So, regarding the brand portfolio write down, was that being amortized? And if so, what was the annual amortization charge that was associated with it?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

No. [indiscernible] (54:21) has changed in U.S. GAAP, as you are not amortizing goodwill anymore or the trademarks. They were on the balance sheet for indefinite life, so there was no amortization of it.

Kean Marden
Analyst, Jefferies International Ltd.

Q

Wonderful. Thank you.

Operator: The next question is from George Gregory, Exane BNP Paribas. Please go ahead.

George Gregory
Analyst, Exane BNP Paribas

Q

Good morning, everyone. Just one question from me. When you launched Adia, you targeted sort of a relatively specific industry segment, whereas as I understand it with YOSS, that doesn't prepare to be a specific industry in mind, it's rather the nature of the work. Just interested in how you decided on that approach for YOSS relative to Adia, please? Thanks.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

It's a very good observation. So, on Adia, our target was to go into part of the market where we were not present because [ph] among others or cost to serve (55:37). So, a typical example, hospitality events, high volume, very short duration of mission, so quite challenging to have an attractive cost to serve and we can with technology you can do it. So, that's why we took the advantage of this platform in the development together with Infosys to tackle these market segments.

With YOSS, it is another view. It started from the enterprise. Perhaps you have seen that, but the two – what we call the founders, one is coming from our organization, but the other one is coming from L'Oréal. And in so that large organization were interested to tap into this freelance labor force. But it was a very complicated to tap in this labor force, because of access, how to get access to this competencies and skills. Second, not only to get access, but then how do you make sure it is compliant, how do you make sure you have vetted the candidate and so on.

And so, that's the vision we have taken with YOSS, because there are already some platform existing on freelance. But, our platform is really starting from the enterprise and especially the large enterprise view. I just invite you to look at the video we have launched today. I think it's quite explaining well the process and how it is going.

George Gregory
Analyst, Exane BNP Paribas

Q

Okay. Thank you. And when we look at some of the competing freelance platform, we do see that some of them do target specific industries. To what extent do you think freelancers out there will be happy to participate in more generic platform as opposed to specialist platform suited to their industries and how do you get past that hurdle?

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

I can imagine that even if, let's say the marketplace is generic, that later on you build some kind of community of same profile with the same needs, the same request and so on. And I think that's not that complicated. And again, I think that the benefits you are offering are quite appealing for these freelancers. If you talk to these freelancers, they see all the administration, the cash collection as really hassle. And the fact that somebody like us is taking over has huge benefit for them, so they can concentrate on their task, on their core activities, what they love to do, in which they are creating money and not be distracted by administrative burdens and so on. [indiscernible] (59:07) what is more, we offer that kind of social environment with insurance with benefit and so on. So, I think it's quite appealing. It's quite unique.

George Gregory
Analyst, Exane BNP Paribas

Q

Okay. Thank you very much.

Operator: The next question is a follow-up question from Hans Pluijgers, Kepler Cheuvreux. Please go ahead, sir.

Hans Pluijgers
Head of Research, Kepler Cheuvreux SA (Netherlands)

Q

Just one quick question on what I see in the balance sheet that the amount for common shares has declined from [ph] 106 to 111 (59:37). What's the background there? And any implications for the buybacks?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

The dividend.

Hans Pluijgers
Head of Research, Kepler Cheuvreux SA (Netherlands)

Q

No, sorry, in the common – in the shareholders' equity, you have common shares. You see it decline from [ph] 106 to 111 (59:54). So, has there any implication for the buybacks or dividends?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

No. So, if that's your question, let met come back on that specific question with what that is, the technical – what we are continuing to do is the share buyback, the €300 million. We are executing in line with expectation. We bought around €200 million back and are continuing to execute against the share buyback. From the dividend point of view, we're continuously committed to the progress of dividend policy and at year-end, every year, we reset the clock.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

We can come back or Nick can come back [ph] with (01:00:31) more details.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

I'll come back, yeah.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

I think if there are any question left. I'm looking at the time. We should now close the call. Any question left?

Operator: We have another question. It's a follow-up question from Tom Sykes, Deutsche Bank. Please go ahead.

Tom Sykes
Analyst, Deutsche Bank AG

Q

Yeah, thank you very much. Sorry, to take a little bit more time, but just on the onsite businesses which were growing very quickly at the beginning of the year and then just your – what is the sort of relative rate of growth between onsite and the rest of the business? And you had spoken about the margin on that onsite perhaps growing over the course of the year. And maybe would that grow into the beginning of next year, because you presumed you did have some setup cost there. Just wondering how significant that would be in improving conversion, please.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

The onsite business is indeed growing fast. And I see that the growth is coming from three things. First, because we are migrating some existing onsite density. [indiscernible] (01:01:43) organization. Second, because then when we have the customer under onsite framework, we tend to increase our share of wallet. And third, because we are gaining new customers. So, yes, we have the high growth. But now to be very precise on your questions, I'm looking at Nick, I see we'll have to come back on Nick or Hans to come back to that later on.

Tom Sykes
Analyst, Deutsche Bank AG

Q

Okay. No problem. Okay. Thank you.

Operator: Gentlemen, there are no more questions at this time.

Nicholas de la Grense
Head of Investor Relations, Adecco Group

So, thank you, everyone for joining the call and for your questions. We look forward to speaking with you again when we report our Q4 and full-year results on March 1. Thank you.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

Thank you. Bye-bye.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

Thanks.

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.