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# Adecco Group AG (ADEN.CH)

Q1 2017 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Ladies and gentlemen, good morning. Welcome to the Adecco Q1 2017 Results Analyst Conference Call. I'm Miro, 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. Alain Dehaze, CEO; and Mr. Hans Ploos van Amstel, CFO of the Adecco Group.

Please go ahead, gentlemen.

## David J. Hancock
*Head-Investor Relations, Adecco Group AG*

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

So, 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 the comments on the outlook, and Alain will then discuss our strategic and operational progress and initiatives. We will then open the lines for your questions.

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

## Alain Dehaze

*Chief Executive Officer, Adecco Group AG*

Thank you, David, and good morning, ladies and gentlemen. Welcome to our first quarter 2017 results conference call. I will start on slide 5 with the key highlight of this first quarter. In Q1, we delivered a very solid performance and I would like to start here by thanking my 33,000 colleagues, who are collectively responsible for the good results.

Revenue momentum has been maintained, 6% organically and adjusted for trading days. Basically, the same momentum as in Q4. All regions are positive and this is the first time since more than five years. Also the underlying gross margin trends continued in Q1 similar to last year.

The head count productivity has also improved with SG&A at only 2% and FTE up 1% organically. So, managing the productivity is for us a key focus area. We had also a very good working capital management this quarter with strong cash flow generation, reduction of DSO win is one day, and this drove our strongest Q1 cash flow generation for five years, and it resulted in a net debt-to-EBITDA ratio of 0.7 time.

We entered the second quarter with good momentum and the trend is broadly steady. For sure, there are many geopolitical uncertainties and they are here to stay, but we are well placed to support clients with a flexible solutions, the need to succeed in this volatile and unclear environment.

On strategy, we made good progress on implementing our six strategic priorities and I will give you more color on segmentation later on during the presentation. As the leader in our industry, we will continue to perform and we will invest to transform and innovate. Today, also, it is an important date as we are re-launching our historic brand, Adia, as an end-to-end online staffing platform for the small and medium enterprise segment.

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*

Thank you, Alain. Our sales growth momentum continued in the first quarter. First quarter growth came on the back of strong results in Q4 of 2016. France and Southern Europe delivered continued robust sales growth. We would like to see more growth in North America and Germany and are working on that, like we're already doing in the Nordics, Switzerland and Holland. This gives us the confidence that we will continue to broaden the growth across all of our businesses, which is important to deliver on our objective to lead in relative sales growth.

Our margin leadership strengthened in the first quarter. The 4.8% EBIT (sic) [EBITA] (05:06) margin confirms our leadership. The 50 basis points margin improvement is helped by the timing of Easter and supported by further solidifying our productivity.

Couple of points to mention by region. In France, the 30-basis-point increase in the chart understates the underlying improvement because we had a positive social security release in Q1 of last year. If we exclude this, the underlying improvement is up 90 basis points in the first quarter of 2017. The strong margin progress in Germany, Austria and Switzerland and the Benelux and Nordics were helped by the timing of Easter and bank holidays.

Looking at the EBIT (sic) [EBITA] (05:53) in a little bit more detail, starting with the gross margin. Down 20 basis points in total, but the underlying gross margin is down 40 basis points. The first quarter gross margin was impacted by favorable impact of timing of Easter and bank holidays, which helped the gross margin by 40 basis points. On the other hand, we had the discrete benefit in France, the social security benefit in Q4 of last year, which had a negative impact of 20 basis points in the comparison.

Adjusting for those two items, this leaves the underlying gross margin down 40 basis points. This is nothing different than what we have seen in the past about [indiscernible] (06:40) pricing and the other half for mix. What is important to mention is that the mix includes the increased share in Onsites, which have a gross margin below the average, but will also have a lower cost-to-serve. Alain will give a little bit more color on this later in the presentation.

Turning to SG&A. We see our continued strong commitment to drive productivity. Sales increased 6% with only 1% more head count. The organization changes we made last year are supporting the productivity. SG&A is up 2% and is also including the investments we're making in digital and IT. Our conversion ratio at 25%, which measures from gross profit to EBITDA our converting, confirms our cost leadership.

In summary, we strengthened the productivity and solidified our margin leadership while we are investing in the future of our business. Our cash conversion improved and we have a strong balance sheet. Overall, the cash conversion was strong at 92%. Receivables measured in days sales outstanding or DSO reduced by one day to 51 days. Net debt-to-EBITDA at 0.7 times versus 1 times EBITDA last year. We bought back €31 million in shares in March and April.

Turning to the outlook. The growth continues in Q2. March and April combined show 5% to 6% sales growth, adjusted for trading days. The exit rates confirmed the continuation of growth across the business. It is important to remember that we had the benefits from the timing of Easter in the first quarter of this year. This benefit will reverse in Q2, so please bear that in mind for your models.

On the cost base, we expect SG&A, excluding one-offs, to be sequentially up slightly on an organic basis in Q2 versus Q1.

So, to conclude, we're pleased with the performance in Q1 and with the growth at the start of Q2.

Back to Alain to talk on Perform, to Transform, and Innovate.

## Alain Dehaze

*Chief Executive Officer, Adecco Group AG*

Thank you, Hans. Now, let's zoom in our strategic and operational progress. Looking at the future, we have a clear vision around the world of work. This vision is articulated around the five key drivers of our industry; technology, demographics, sociology, political economy and regulation. And to drive efficiently this vision, we have a strategy based on three word streams; Perform, Transform and Innovate.

Perform means for us strengthening our current operations and all competitive position by reinforcing our operating discipline and streamlining our business and brand portfolio. Transform means enhancing the solutions and experience that we provide to all clients, all candidates, associates and colleagues. And finally, with innovation, we are developing and acquiring new approaches and capabilities to capture the emerging opportunities in this changing world of work. So, a clear vision and a clear strategic agenda.

In our Perform agenda, segmentation is one of our key strategic priorities. Segmentation is about deploying the right go-to market channel to the right customers with the right pricing and the right cost-to-serve. And as a result, the segmentation strategy ensures that we generate profitable growth. We are now clearly harvesting the fruit of the global practice leader and countries work on segmentation. This is evident in the results in Q1. We are delivering superior growth of 13% in the small segment, while gross margins are higher. We are delivering an accelerated growth in the Onsite segment, plus 27%. The Onsite model is perfectly suited to types of business with below average gross margins.

As those who joined us for our Investor Day in January 2016 will recall, our Onsite business represented just over €2 billion of annual revenue at that point. In the meantime, we have rapidly grown our offering. And in the meantime, our annual revenues now stand at over €3 billion and we have strong positions in Onsite solutions across all markets, including now the leadership by revenues in the French markets.

In our Transform and Innovate agenda, digital is a key strategic priority. In the Q4 and full-year results, I gave you some example what we are doing. As a reminder, we are innovating in the area of big data analytics with Adecco Analytics and Talentoday. We are developing leading offerings in online staffing with Beeple and with WoWooHR in China. And we have strategic partnership with Partech Ventures that provides us with access to comprehensive sourcing of digital ventures in the European and U.S. startup ecosystem.

Today, I would like to focus on our latest venture, the digital revival of Adia. As you probably know, the market for short-term assignment in the small client segment is very attractive but difficult to serve cost effectively using the branch network. That's why we have launched a new application to address these markets under the brand Adia.

Adia was originally founded in Switzerland 60 years ago. It was one of the pioneers of the temporary staffing industry and a key building block in making the Adecco Group the global leader of today in workforce solutions. To-date, the launch of the new digital Adia brand is a building block in making the Adecco Group the leader in digital workforce solutions of the future.

The new Adia is a mobile first and cloud-based recruitment platform targeting hospitality and events candidate profile for the SME segment. The Adia application has been co-created by the Adecco Group and the global technology leader, Infosys. It covers the full cycle of recruiting, matching, invoicing and payrolling with state-of-the-art functionality, such as feedback and rating and [ph] geo-localization (14:18).

We have already deployed Adia in five Swiss cities and planned multiple international launches in the next 12 months. Adia illustrates perfectly our digital strategy as the platform offers, in particular, better user experience with high speed, convenience, transparency, flexibility, effectiveness of the solutions for clients, candidate, associate and colleagues.

Adia also offers an enlargement of our market with more services and more models, and it lower our cost-to-serve by reducing the manual processes and leveraging technology. Adia also reflects the distinctive features of our approach. The way we are driving digital, especially that of co-creation and partnership, working with the best companies, the best people and the best ideas being actively engaged in our ventures and not just passive investors.

Coming to the concluding messages. In the first quarter 2017, we have performed, we have transformed and we have innovated. We performed by delivering on relative growth, the margin leadership and cash generation. And this growth momentum continued in March and in April. We are transforming by making good progress on our six strategic priorities, and especially the segmentation and the digital ones. And we have innovated by re-launching the brand Adia as an online platform targeting the small and medium enterprise segments.

I thank you for your attention. And now, I would like to open the line for questions. And to be fair to 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 comes from Denis Moreau from UBS. Please go ahead.

Denis Moreau
*Analyst, UBS Ltd.*

Q

Yes. Hello, everybody. Denis Moreau, UBS. So, two topics I'd like to discuss with you this morning are Adia and your Onsite business. Firstly on Adia, can you detail the benefits for the clients in terms of prices and costs? And can you elaborate on the price stability metrics of Adia? Is that already profitable as it is, and how much revenues and profit margin do you target in 12 months' time and, say, two, three years? That's my first question.

My second question is on the Onsite business with an impressive revenue growth of 27%. How is pricing developing in the Onsite activity in comparison to the other businesses with large plans? And did the EBITDA margin of the Onsite business extend in line with the other activities over the past 12 months? Thank you.

Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

Okay. Regarding Adia, first of all, I would like to say that all our digital ventures and Adia in specifically are still at a relatively early stage. So, we will not provide detailed financials and operational KPIs and so on. And also, Denis, you will understand that this conference call is public, so we don't also want to give too much details on pricing when we know that we are listeners.

Now, more specifically on pricing what I can say is that with our digital solutions, we are providing an excellent user experience. We are always aiming at differentiation versus the competition, and also this allow for us dynamic pricing and at the end, it should and it will provide pricing power.

Now, on costs, we are clearly in investment phase, but digital models like Adia will have a lower cost-to-serve in comparisons with our other offering. And it means that this is really our strategy that digital should drive profitable growth and contributes to our target to expand our EBITDA margin through the cycle. So, it should be accretive and it should be contribute to our overall objectives. That's what I am willing to say and I can say. And for the Onsites, Hans will take it.

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

A

Yeah. We're very pleased with the progress we're making in the Onsite business. It's an important delivery vehicle for us to serve large clients. The profitability of Onsite versus serving large customers via the branch allows that competitive price level of large clients that we can serve with a more attractive cost-to-serve, which helps the profitability, and part of the productivity you see in the quarter is driven by driving more business to the Onsite. So, between the pricing and the cost-to-serve, it's a much better delivery model, which is margin accretive for us.

Denis Moreau
*Analyst, UBS Ltd.*

Q

Thank you. Very helpful. Thank you.

**Operator**: The next question comes from Nicholas de la Grense, Bank of America Merrill Lynch. Please go ahead.

Nicholas de la Grense
*Analyst, Bank of America Merrill Lynch*

Q

Yeah. Good morning, guys. Two questions please. The first one, a follow-up on the Adia re-launch. You've mentioned that it's going to be or is currently focused on SMEs and just in Switzerland. I was just wondering, can you comment on what your thoughts are with regard to online-only service offerings with larger clients? And also, how quickly you expect to expand outside of hospitality and events, which presumably lends itself quite well to this kind of model?

And then the second question was just in terms of the operating leverage, also it is very, very strong in the quarter. It sounds like cost [indiscernible] (21:24) is going to be quite low in Q2 as well. I was just wondering, how much of the improvement in productivity is coming from wage inflation versus the number of temps being covered per consultant, and also just how much longer you could sustain organic growth in sales much higher than organic growth in costs? Thanks.

Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

Yeah. Thank you, Nicholas, and good morning also to you. Regarding Adia, so this online digital platform is indeed focused on the small and medium enterprise segments. Why? For two reasons. First of all, because we know that it is very difficult to tackle the small segment with a classical branch network organization, let's say, cost. A digital platform is allowing us to tackle new areas of the segment, but also new type of contract, this type of events, hospitality contract, short term and so on, a digital platform fully automated is the best answer to that.

Now, how we are – we intend to roll out this contract? We have started with a so-called MVP, minimum viable product, in Zurich. We tested that together with our partner, Infosys. We improved the product and then now we are in five Swiss cities. So, we are rolling out here in Switzerland, and our intention is to roll out the platform in four other countries in the next 12 months. It is a primary platform dedicated to the small segment.

For Onsite, I would say that the customers and the processes and so on are requesting other type of technology. For sure, we can always learn and duplicate, copy and paste some of the processed automation we do in Adia into our other systems that we need another approach for Onsite, and also our branch network, which is mainly focused on medium. And I would say the low large and the high small will continue, because there we provide numerous services in our agency. So, it's really three go-to channels, go-to vehicles to the market with different needs, different customer experience.

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

A

Hans here to further elaborate on your question on cost and operating leverage. If you look in the quarter, we drove 6% sales growth with adding 1% FTE growth, so that confirms a strong operating leverage on the business. Our SG&A grew 2% and includes making the right investments in digital and IT, which confirmed that we continue to focus on productivity and driving strong conversion.

Your question on how will this go going forward? We believe that through our performance metrics, we'll continue to drive strong operating leverage and conversion ratio. But we also recognized that we need to find continued new ways to drive the productivity. Therefore, we launched productivity initiatives and we're starting to – with the pilot, so that we can continue to drive strong conversion ratio with new ways to drive productivity, because they are very important to control our margin objectives to improve structurally our margin through the cycle.

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### Nicholas de la Grense
*Analyst, Bank of America Merrill Lynch*

Q

Thank you. And sorry, one quick follow-up on that. Just how much wage inflation are you seeing in temp wages, and how much has that contributed to the increasing GP per FTE?.

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### Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

For us, the wage rates in our cost is still relatively robust. It had – if you look at the 1% and the 2%, so that's nothing. But we have seen with the temp business and that's different inflation [ph] there (25:59). We have seen in the U.S. some inflation into the billing rates for our temps, the associate.

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### Nicholas de la Grense
*Analyst, Bank of America Merrill Lynch*

Q

Right. So, in percentage terms, what kind of – in terms of the temp wage inflation, what are you seeing in the U.S. versus Europe at the moment?

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### Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

In the U.S., we see below 5%, 2.5%, 3% like wage rates into the temps.

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### Nicholas de la Grense
*Analyst, Bank of America Merrill Lynch*

Q

Okay. Thank you very much.

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### Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

Welcome.

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**Operator**: The next question comes from Robert Plant, JPMorgan. Please go ahead.

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### Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

Robert?

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Robert Plant
*Analyst, JPMorgan Securities Plc*

Q

Good morning. Two questions please. Sorry, you have given the Easter impact for the gross margin. Could you give us perhaps what it was in terms of the 50 basis points for EBITA? And with Adia, you mentioned the partnership with Infosys. Was that purely for development or is there a stake owned by that company as well? Thank you.

Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

I will start with Adia. No, the development of Adia has been purely a co-creation in the development. It is not a financial construction with them. So, it's purely a development. And then on the gross margin.

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

A

Yeah. The way the timing of Easter and bank holidays falls over the quarter is very transparent to quantify the gross margin. The way with SG&A that works and how sales force is more – you can't be that precise [Technical Difficulty] (27:51) 40 basis points impact on gross margin, and we see if we look at the underlying operating leverage, strong operating leverage, but it's hard to quantify that precisely [ph] that EBIT (28:02) level.

Robert Plant
*Analyst, JPMorgan Securities Plc*

Q

Thanks. Do you think there was more impact from productivity than Easter at the EBITA?

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

A

Yes. I think what you see is that in the quarter, we – if you – I think what you can concluded if you take away the Easter, we had a good operating leverage into the quarter. You just [ph] got to be (28:22) precise to the last decimal there, but the operating leverage would have been there before and after Easter.

Robert Plant
*Analyst, JPMorgan Securities Plc*

Q

Great. That's clear. Thank you.

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

A

Thank you.

**Operator**: The next question comes from Paul Sullivan from Barclays. Please go ahead, sir.

Paul Sullivan
*Analyst, Barclays Capital Securities Ltd.*

Q

Yeah. Good morning, everybody. Just a couple from me. Firstly, on the areas of underperformance, I think it looks like you're sort of lagging behind a little bit in Germany, and in the U.S., you mentioned [ph] openly (28:49) sort of flat despite the improving market trends there. Can you maybe elaborate on turnaround or improvement that we can envisage over the next sort of few quarters there?

And then just on Adia, in terms of the separation of the business models, presumably this should be run as a completely stand-alone business. And if it wants to cannibalize existing customers or existing business from the group, will it be allowed to do so?

Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

Okay. Thank you for your question. Regarding, first of all, in Germany, what we see in Germany is that we have a strong performance in the professional staffing. We have a strong performance in the perm recruitment, plus 32%. Where we are lacking traction and revenue growth is in the general staffing, and this can be explained by two reasons. First of all, the same reason we gave you the last time for the Q4, it's – 30% of our revenues are coming from the automotive. We had one customer activity reduction and also the hiring of all temps at the end of Q3. And we are in the process to – on one hand to reconstruct the pool, but it takes time. I gave also already this explanation the last time, it will take time.

And second, we are diversifying our portfolio in Adecco, Tuja and it takes also time. We have done that in Switzerland for all the reasons, but looking at less expose to export customers. Now, we are there in Switzerland with plus 8% and it will be the same in Germany. Taking the time to diversify the portfolio, also in combination with the integration of Adecco and Tuja in one single operation.

Regarding the U.S., I would say the figure is more disclosed can be also explained by the rather low GDP figures, 1.6%. So, forecast you cannot expect high growth in such a macro environment with rather flat for general staffing, with still some good performance in professional staffing, in particular, medical and science.

Now, coming to your question of Adia, yes, it will be a separate business model, a stand-alone. So, we intend to do that. And for sure, Adia will give us the opportunity to tackle part of the small segments and type of activities today we are not tackling, because the impossibility – the financial impossibility to do it with a classical branch network cost-to-serve. If there are cannibalizations, there will be – let's say, the market will play its role. Important is that it is financially accretive for the company and for the investors, and that's what we will look for and [ph] be append (32:39).

Paul Sullivan
*Analyst, Barclays Capital Securities Ltd.*

Q

Thank you very much.

Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

You're welcome.

**Operator**: The next question comes from Alain Oberhuber from MainFirst. Please go ahead.

Alain-Sebastian Oberhuber
*Analyst, MainFirst Schweiz AG*

Q

Good morning, gentlemen. I have two questions as well. First is regarding gross margin development in the future. Do I understand it correctly, giving that you have very strong growth late on the Onsite business, and there you have lower gross margins, [ph] could that be that (33:08) also in the next couple of quarters, we could see some pressure on the gross margins as well as midterm? The same question goes from the gross margin development and the mix effect. Could you give us a little bit more view when we could see positive mix effect, i.e., higher professional staffing growth to general staffing growth?

And then the second question is on France regarding the recent development on the election. Have you seen any impact so far yet if you talk to the clients right off at the election time?

## Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

I will start with France and – no, we haven't seen any impact of the election or the campaign period in all figures. That's what also you can see when you look at all figures, 8% growth in Q1. And the only impact we have seen from the election period is in the [indiscernible] (34:15) placement activities at LHH. And we had the same pattern, we had also five years ago in the previous presidential election. And in that kind of period, French companies are not restructuring, and so we have seen the same pattern this year. That's point one.

Second, we expect the new president elected to take the Labor Code Reform as one of his key priority. It was part of his campaign. He has announced it, and it should be one of the first reforms he wants to tackle. For sure, it's still wait and see. You will have the parliamentary election in June, but it should provide much more flexibility to the labor market. It should also provide much more visibility, clarity for the employers, especially when they have to restructure the company. There is one proposal [ph] is to cap (35:30) to a very clear layoff indemnities fixed by the law. So, it will make any restructuring very feasible, very manageable.

And the third point, which is also very good, like by the way, you have in Switzerland [indiscernible] (35:48) is to give much more power to the company, to the enterprise to negotiate their own agreement with the unions regarding the number of hours worked, the flexibility and so on. And we think that all these measures should increase the competitiveness of France, and this is attractiveness and [ph] there's the (36:11) growth in the labor market at the end.

## Hans Ploos van Amstel
*Chief Financial Officer, Adecco Group AG*

A

Hans here. Turning to the question on gross margin. We saw in the quarter 40 basis points reduction in gross margin. That is no different than what we have seen in the past that are under 30. So, it's maybe good to mention that [indiscernible] (36:34) the lower end of the 30s, [ph] say it's above 35, you round it (36:38) up to 40, so it's not a full 40. We had good [ph] insights (36:42) in that. I think what is important what we do to mitigate the competitiveness of the markets. One is segmentation. The other one is driving continued operating leverage and productivity.

And if you look where we already applying those recipes well, we see strong margin progress. I think if we take market like France, where we have broad-based growth with segmentation, the perm business has a very strong improvement in margin. If you look at what we have achieved in the Nordics, Netherlands and Switzerland that we are putting segmentation to work out. You see we're coming out of the decline in Holland. We're driving good growth in the Nordics and also with improving the margin. Japan is another example where we have a good mix between professional staffing, general staffing, and the perm business and in the rest of the world in the quarter, we're focusing on the more profitable mix as mix.

Why I'm giving you those examples? We will continuously balance between driving the operating leverage into that competitive environment, while we're shifting the mix to make sure that we see the gross margin in the right direction, as well as keeping the operating leverage to [ph] the right (37:54) profitable growth.

Alain-Sebastian Oberhuber
*Analyst, MainFirst Schweiz AG*

Q

Thank you very much.

Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

You're welcome, Alain.

**Operator**: The next question comes from Konrad Zomer from ABN AMRO. Please go ahead.

Konrad Zomer
*Analyst, ABN AMRO Bank NV*

Q

Hi. Good morning. Two questions from me as well. The first one on your revenue growth in Q1, the 6% adjusted for trading days. I seem to remember that at your full-year results' presentation, you mentioned that the year had started well in Q1 with 4% to 5% growth in January, February, which implies a slightly higher growth rate for March. As you haven't given us the specific growth rate for March, I'd like to ask if you could give us that adjusted for trading days?

And my second question is on the performance of DIS in Germany. You just mentioned the Tuja and Adecco integration into one organization. But can you just share with us what you currently experience in the German specialized market for engineering and what the performance of DIS has been in Q1, please? Thank you.

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

A

Yeah. Shall I start with your first question on the revenue?

Konrad Zomer
*Analyst, ABN AMRO Bank NV*

Q

Sure.

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

A

We actually were going to that question yesterday because that is a good question to answer. Long story short, the trading days play in the first quarter but also during March and April to a large extent. What should reassure you, if you look between March and April, we said the exit rate is between 5% and 6%, and that is constant between March and April. So, it's not like April [indiscernible] (39:43) is showing something different than March. So, it's a very consistent performance. It's just if you don't do the math, it's fair to conclude that we did a little bit better in February than what we expected from the February results. So – but the [indiscernible] (40:01) if you take away the trading days, a continuation of growth in the second quarter.

Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

And then coming to your the second question in Germany, what we see is that some of the segment – and we don't disclose the details by companies, but what I can tell you is that we have quite a strong double-digit growth in the professional staffing in Germany, especially strong in IT, also in medical and science, high double-digit growth there.

I told you also about the perm recruitment, also very good performance there at 30% for Germany. Now, when you zoom in into the sectors further, software and technology, we are more at 80%. Computer hardware, also [ph] 18% (41:15). Where we – really we are [ph] suffering is (41:19) like what I was saying in the previous question, it is in the automotive sector.

Konrad Zomer
*Analyst, ABN AMRO Bank NV*

Q

Okay. Thank you.

Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

You're welcome.

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

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

Q

Hi, there. I've got a couple as well. And it's just – so on your digital investment, clearly, that's an interesting market you're going into. Could you comment on how much you already do in hospitality and events in terms of temp staffing? And then secondly, do you think you're spending enough? I mean, it sort of strikes me the market is changing potentially quite quickly. Do you think you guys should be looking to invest more rather than sort of [indiscernible] (42:05) on the margins as they are?

And then my second question is, what's your view around the CCA following the presidential election at the weekend? I think the new president has sort of said that he would look to change it and opt for lower social charges in the past. Could you comment on what do you think that change is to and what the implications of that are, please?

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

A

Yeah. Maybe I start with the digital and the spending. And then Alain can give some color on the CCA. And hospitality is still a relatively small part of our business. So there, we see that this will be growth accretive. And that this type of public offering fits that market very well that pure online solution and [indiscernible] (42:55) for investing in that. And it's also important that to the pricing and the customer experience and the cost-to-serve that this will help us to drive profitable growth.

Your question, are we spending enough? We will make constantly the right investment choices to sustain a profitable growth, and we did also invest in digital and IT. If you look how much we're investing in IT today, that's already around €300 million and that will go through more new technologies, which will help us...

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

Q

Is it most of that on sort of IT systems that you've got already relevant to developing new distribution models like Adia digital?

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

A

No. Today, big part of that goes indeed against the current systems, but we will within that €300 million invest in newer solutions like newer front-office, client-facing solutions for our customers. So, with the investments we're making, we will get better technology. In addition to that, we do the digital investments. And there, we co-create with partnerships, like we are doing on Adia, because we believe that the partnership approach allows us to combine the best technology with our insight of our markets and business to bring products to market we accept or bring the human customer interface and the latest technology together, and we are making the right investments. Of course, what's important for us is that we drive the growth through the cycle and improve the margins with the cycle. So...

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**Alain Dehaze**
*Chief Executive Officer, Adecco Group AG*

A

I would like just to add one point and elaborate on what Hans has said. It's not only a question of how much we invest. It's also how you invest. And the way we are doing it is also quite innovative. When we partner with Infosys for Adia, it means that we are co-creation. So, it is also a quite innovative investment. When we take a participation in Partech Venture, it also somehow outsourcing the research and development to a very professional partner, who had 4,500 guilds per year. And that's – [ph] to decide (45:30) how much there is also [indiscernible] (45:32).

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

Q

And so under that – so, if we think about that €300 million a year, how much of that isn't going on updating current systems or investing the front or how much is actually being spent on stuff like Adia digital?

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

A

I think over time what you will see is overly a chunk of your IT spending goes against the current infrastructure. But every time you make an upgrade, you can really bring the insights of what we learnt through the productivity initiative on how we can drive better customer experience by choosing, reallocating that money to another technology. So, I think in evolution, that money will get more productive use.

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

Q

Okay. So, but it's a small amount now is what we think about, and it will just grow a lot over time. Is that right?

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

A

Yeah.

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

Q

Okay.

**Alain Dehaze**
*Chief Executive Officer, Adecco Group AG*

A

Yeah. The mix shift will go more into it.

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

A

Yeah.

**Alain Dehaze**
*Chief Executive Officer, Adecco Group AG*

A

Okay. Then coming to your second question on [indiscernible] (46:33). First of all, we don't see and we don't plan any change this year. This is now the fifth year that this [indiscernible] (46:45) has been put in place. And it is – in the meantime, well known by all and we have designed it really with all strict pricing. Now, we have – like everybody, we have heard what Macron has said during his campaign. First of all, we have to see next month in June what the parliamentary election will give and what kind of majority [ph] of not (47:12) majority he will get and how it will be developed. I do also know it is not the first priority in his action plan. I think the Labor Code Reform is really one of his top three, top four priority. [indiscernible] (47:28) will be for later.

And now, if the approach would be changed, we know that France has to continue to improve its attractiveness, it's competitiveness.

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

Q

Yeah.

**Alain Dehaze**
*Chief Executive Officer, Adecco Group AG*

A

So, the [indiscernible] (47:44) could be converted for example in reduction of social charges and corporate tax reduction to be confirmed later on. But on our side, we will continue to maintain our pricing discipline in order to protect our profitability. And changing the [indiscernible] (48:10) is not easy. It's a complex engineering. So, let's wait and see later on what the new government will give as direction. But as said, for us on the short-term, no change expected.

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

Q

No change. And so you think as to the change to a reduction in social charges, that's likely to be sort of the hit, I guess on that and it would be taxable income. So, you think they would come with the tax cut as well?

**Alain Dehaze**
*Chief Executive Officer, Adecco Group AG*

A

That's what we heard. It will be a combination of social charges reduction, especially directed for the lower paid salary and in combination with corporate tax cut.

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

Q

Okay. Thanks, guys.

**Operator**: The next question comes from Hans Pluijgers, Kepler Cheuvreux. Please go ahead.

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

Yes. Good morning, gentlemen.

Alain Dehaze
*Chief Executive Officer, Adecco Group AG*
A

Hey, Hans.

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

Good morning. Question on the trends by – in general staffing by segment. You see a quite strong pickup in the office segment. Could you maybe leverage on that, let's say maybe in specific regions there in strong increase, and is that for you also a sign that [indiscernible] (49:35) more later in the cycle or not? Could you give some feeling on that?

And coming back on the IT. You've already given, let's say, an indication of the total number. But could you give some feeling on this increasing year-on-year, as it's clearly ahead of, let's say, your average SG&A increase? Could you give some feeling on that?

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

I will start with the [ph] jobs (49:56) testing cycle. So, what – first of all, we don't believe any more that there is one cycle in the world. There are numerous cycle being geographical one and being also by industry. It is something which is obvious for example in the U.S. But you see also in Europe that there are also different maturity regarding recovery. As an example, we have always said that France would be the latest to recover, and that's exactly what you see, and you see some of the countries being further in the recovery.

Now, looking at the – more specifically by segment, overall, you see a good growth everywhere in car manufacturing, especially in Europe, you see good development in manufacturing – in car manufacturing, but also for logistics construction in a lot of countries, good development, logistics distribution, that's the major sector where we see a good growth. Where we see some slow down, that's for example the traditional retail in the U.S., that's where we see – and financial services in the U.S. I would say that's the two major slow down we see in the world.

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

And with respect to the office segment, where are you going to see the clear acceleration compared to Q4, maybe something about countries or regions?

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

I think the trends we're seeing – because you have to be careful to sometimes just look at, it is for the [ph] lands such as (52:10) that there are few things. The broad – the growth is broad based [ph] cause (52:14) of multiple of factors. We have in Germany the automotive, but if you take that away, is that the growth momentum – if you take between France, Southern Europe continues to be a cause of multiple of factors. So, it's broad-based and we also see that between small, medium, so across the different [indiscernible] (52:37) between small and medium part of the economy and larger companies.

If we look at the more mature, just like the U.S., we see stability. And what our focus is, is to drive our market share there because we see a continuation of that stability. So, we don't read into the quarter any sign that what we have been seeing for a while is continued growth momentum in Southern Europe and France with the more mature economies being a little bit more mature. But we see opportunity there to grasp market share to drive relative growth going forward.

If we turn to your question on the IT investments, we continue to drive investments in the future of our business, and those include strategic IT initiatives, our productivity initiatives, and the digital ventures we discussed, and those are included in the SG&A we reported. So, we are investing in the business while we drag the operating leverage.

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

Q

And I just want to understand, but, let's say, aren't those IT investment could lead to, let's say, ahead of an average SG&A increase? Could you give some feeling on that or...?

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

A

Yeah. Underlying, you see that we're relatively making more investments into the future as part of SG&A. So, the share of the investments in the future is bigger than in Q1 last year.

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

Q

Okay. Thanks.

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

A

So, if – so, one question to take or one or two questions left.

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

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

Q

Hi. Good morning. Just one question if I may on Adia and online recruitment in general. How do you manage the quality of that service, not just with that development, but more generally given that you are fully dislocated from your clients and from your candidates? Because that's one of the issues that these kind of products have had in the past. What is your plan to retain the high-quality service and kind of maintain a broader Adecco brand within it?

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Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

A combination of three things. As said strategically, we really want to provide better user experience, thanks to the digital. And for example, if you take the Adia application, you will see that there is a satisfaction system. So, both customers and candidates can – are quoting the quality of the service, that's on one hand. Second, it's a little bit like in the retail financial services. So, we will have the full online application, for example with Adia. But we can also rely on our branch network structure in case of specific needs.

And I think that's one of the key advantage we have is that we can leverage both channels according to the needs of the customers, the needs of the candidates. And I can perfectly imagine that both customer and candidate for certain type of function will use more the online staffing and for others will just recruit through our branch network because they need another profile, another type of process with more in-depth assessment of the candidate and so on. So that's how we see that. But definitely, the customer experience should be enhanced.

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

Q

And just to follow-up on that, you mentioned earlier that it was going to be a stand-alone business.

Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

Yeah.

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

Q

So, as a stand-alone business, how does that interaction with the branch network that you were just talking about, how does that occur or are these separate?

Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

It's really separate.

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

Q

Okay.

Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

So, it's really two organization. By the way, they don't report to the same people. So, it's really separate.

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

Q

And so that you're not interviewing the candidates? You're not interacting with the clients in...?

Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

A

It doesn't mean that we don't want to play the synergies where we can and leverage the synergy where we can and our assets. So, our assets being the candidates' database, the customer database, the back office, the payrolling, and [ph] form (57:35). It's – there we can – we have somehow competitive assets that we will leverage for sure.

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

Q

Okay. Thank you very much.

Alain Dehaze
*Chief Executive Officer, Adecco Group AG*

So, I think if there are no more questions and it is perfectly 12 o'clock, I would like, ladies and gentlemen, to thank you for your interest and your questions. We are looking forward to meeting some of you over the coming days during our road show. And otherwise, we invite you and we hope to hear you again on the second quarter call on August 10, and see you also at the latest at our Investor Day on September 22nd in London, September 22nd in London.

Have a great day. Thank you.

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