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Adecco Group AG (ADEN.CH)

Q4 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, good morning. Welcome to the Adecco Q4 and Full Year 2016 Results Analyst Conference Call. I'm Selena, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. After the presentation, there will be a Q&A session. [Operator Instructions] The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Mr. David Hancock, Head of Investor Relations, accompanied by Mr. 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. Good morning, everyone, and welcome to The Adecco Group's fourth quarter and full year 2016 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.

So let me give you a quick overview of today's agenda. You'll see that we've changed the format slightly compared to previous quarters to try to ensure that the call is informative and interesting and to reduce repetition of information that's in the press release.

Alain will first briefly present the highlights of the quarter and the year. Hans will take over to review the financial performance and 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.

With that, Alain, I hand over to you.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, David, and good morning, ladies and gentlemen. Welcome also on my side to our fourth quarter and full year 2016 results. I will start on slide 5 with the key highlights of the fourth quarter and the full year. If we look back at the fourth quarter 2016, we see that the sales growth momentum has further improved and this across region in a very broad-based improvement, but with the greatest sequential pick-up in France and in Italy.

We also see that the underlying gross margin trends continued in the fourth quarter in a similar way than the first half and the third quarter. We had good cost control. We have also improved our head count productivity in the fourth quarter, so meaning and showing that managing the productivity is a real key focus area for us.

Looking back at the full year 2016 and when we met together in January 2016, we committed to three objectives. The first one was to lead in growth, with all top-line development at least in line with market and all major peers. The second objective or the commitment was to maintain our leading profitability with an average EBITA through the cycle between 4.5% and 5% and then, also a commitment to return excess cash to our shareholders.

Now, looking back at 2016, we closed the revenue growth gap with our peers. We maintained the leading profitability while investing for the future and we will return €300 million of excess cash back to our shareholders.

When we look at the outlook, we entered the first quarter with good momentum and the trend is broadly steady. For sure, there are many geopolitical uncertainties, and they are here to stay. After the U.S. election and the Brexit referendum, we will have elections to come in the Netherlands, in France in May and September in Germany.

And we are well placed to support our clients with flexible solutions they need to succeed in this volatile and unpredictable environment. And as the leader in our industry, we will continue to perform – not only to perform, but to perform, and we will also invest to transform and innovate. More colors to come on this later in the presentation.

Before I hand over to Hans for more details on our financial performance, I would like also to comment on the organizational change we announced this morning. As of 1 April 2017, our business activities in North America and the UK & Ireland will be combined and managed by business line, one business unit for General Staffing across the two regions and one business unit for Professional Staffing across also the two regions.

In North America and UK & Ireland, we have substantial operations in both General Staffing and Professional Staffing, and this move will allow us to drive further commercial and operational focus to our dedicated General Staffing and Professional Staffing brands, allowing us to capture the high potential we still see in these markets.

And I am very pleased to announce two key appointments, the first one being Federico Vione, who will be the Regional Head of North America, UK & Ireland for Adecco and also Pontoon; and John Marshall who will become the Regional Head of North America, UK & Ireland for Professional Staffing. Federico has extensive international experience in General Staffing for The Adecco Group as well as a strong record in managing relationship with large global accounts.

John is a very experienced leader in professional staffing. He has deep knowledge of both the North America and UK and Ireland markets having led a large [indiscernible] (06:24) professional staffing activities in the U.S. in his previous job and currently, due to the fact that he is running our entire business in the UK and Ireland.

For Bob Crouch, Bob has decided to leave us at the end of March and I take the opportunity today to thank him for the warm collaboration we had together during the last five years, first of all, as colleagues in the executive committee and then in my new role since 18 months. I would like also to thank him for the successful tenure that he had as the head of our North American operations [ph] and this I've said (07:06) since five years now. Both Federico and John will continue to report to me as part of the executive committee team.

So as you see, we continue to evolve our business and we see exciting things to come for The Adecco Group. But first, let's look in more detail at Q4 2016. And for that, I now hand over to Hans.

Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

Thanks, Alain. Our sales growth improved in the fourth quarter. 6% is good growth and the improvement is broad-based. We're also pleased with the relative growth momentum, both versus the market and the peer group. This is a clear outperformance in a large part of our business, while we also have opportunities to drive the relative growth in other markets. Remember, we remain committed to lead in sales growth, with growth at least in line with the peer group, like we did this quarter.

When we turn to the next slide, slide 9, continued EBIT (sic) [EBITA] (08:16) margin leadership at 5.1%. The 40-basis-point reduction is impacted by some positive effects in Q4 of 2015. The two largest items are in France and Germany. In France, the fourth quarter of 2015 was helped by social security benefits and in Germany, the timing of bank holidays was more favorable last year. Together, these two items explain about 30 basis points of the 40 basis points year-on-year reduction.

Let's look at the EBITDA performance in more detail starting at gross margin. The 60-basis-point gross margin reduction is impacted by the comparison base, because of the German days and the France social security we discussed before. Stripping this out, pricing and mix declined [ph] at around (09:16) 30 basis points in Q4. This is the same as in the first nine months and nothing new and no different than the past.

Let's turn at SG&A productivity and cost control. Strong productivity. 2% additional head count delivering 6% sales growth. The conversion ratio is strong, confirming our cost leadership. SG&A up 3% and includes the investments we're making for the future. Because of price competitiveness, we need to constantly find new ways to drive productivity, to solidify our cost leadership going forward, which is important to deliver on our commitment to drive profitable growth and strengthen our margin leadership.

On slide 11, cash flow conversion continues to be strong. Overall, our cash conversion was 83% in 2016, DSO of 52 days, stable versus last year, timings of tax and social security payments impact 2016 and last but not least, what's important to mention the increase in the sales growth was funded by better working capital management.

A quick highlight on net debt. Net debt to EBITDA came down to 0.7 times, and we've issued new debt at a rate of 1% reducing our interest expenses in 2017.

Strong cash returns for our shareholder. Stable dividend versus 2015 and we announced the €300 million share buyback. This is consistent with the approach we communicated at the start of the year. We also adjusted [ph] the wording (11:15) of the dividend policy to clarify our commitment to hold our dividend at least in line with the prior year.

If we turn to the outlook, we see a solid start in 2017, but recognized the uncertainty. January and February growth were between 4% and 5%. This is a little below the 6% of Q4, but holidays and trading days around December and January period make it a little harder to be that precise. It confirms that Q1 is off to a solid start.

Back to Alain.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, Hans. After a little over one year leading The Adecco Group, it's a good time to reflect on what we achieved in 2016. First our 33,000 colleagues closed the revenue growth gap with the major peers. Second, we maintained our leading profitability, and we delivered a set of solid results, and this, while investing for the future, and while returning the excess cash to our shareholders. The question is how did we achieve these results. We did achieve these results by having a clear focus on the six strategic priority deployment; segmentation, term placement, professional staffing and solution, digital, engagement and thought leadership. Clear focus on the deployment with measureable progress.

In 2016, we also strengthened our portfolio and addressed the underperformance. We turnaround Norway and Australia. We exited from Venezuela, Russia and Ukraine. We did the acquisition of Penna in UK, and D4 in the U.S. And in the last quarter of the year, we merged Beeline with IQNavigator to create the leading independent VMS provider. In 2016, we established ourselves also as one of the leaders in the digital development, and we strengthened the brand positioning of The Adecco Group, and this with its global lead brands, Adecco, Badenoch & Clark, Lee Hecht Harrison, Modis, Pontoon Spring Professionals.

And last but not least, but of great importance, it is on the people side. The executive committee team is fully integrated and engaged, and I'm very proud that The Adecco Group has been awarded the seventh place in the worldwide Great Place To Work ranking, not only at the worldwide ranking, but also in Europe where we had been awarded the fifth place. Now, looking at the future, we have a clear vision around the world of work, and this vision is articulated around the five key drivers of our industry; technology, demographics, sociology, political economy and regulation. And to drive this vision efficiently, we have a strategy based on three work streams; perform, transform and innovate.

Perform means, for us, strengthening our current operations and our 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 our clients, candidates, associate and colleagues. And with innovation, we are developing and acquiring new approaches and capabilities to capture the emerging opportunities in this changing world of work. So not only a clear vision, but also a clear strategic agenda. Now, that we speak about the strategic agenda, I want to spend some time on our digital strategy. And as a background, yes, The Adecco Group has led the workforce solutions industry for over 50 years, and going forward, digital is a critical part of how we lead in the future.

Digital is strategic for us, because it is an enabler of the future in four different key ways. First, digital allow us to provide better user experience, higher speed, more convenience, more transparency, more flexibility, and this for our clients, our candidates, our associates and our colleagues. Digital allow us also to address more markets with more services and more models, and will allow us also to tap into the [ph] great (16:31) economy potential. Digital allow us also to deepen the customer relationship as it becomes central how clients and candidates engage with all work-related topics. And the fourth way is about the enabler of lowering the cost to serve by reducing manual processes and leveraging technology.

In all approach, we have three distinctive features; first, we co-create and partner. We are working with the best companies, with the best people, the best ideas. And we want, and we are actively engaged in all ventures, not just invest and stand back. Second distinctive feature, we are always monetizing the idea. We are open to experimentation and the so-called genetic diversity, that we are always focusing on bringing the ideas to the benefit of the bottom line. And the third feature is about the organization. We have a fully dedicated organization with a strong governance. And on this next slide, we have picked up some example of what we are doing. The first example is how we partner with the best, and in this case with Partech Ventures. Partech Ventures is ranked as one of the 10 most consistent venture capital firm in the world.

They have offices in San Francisco, in Bahrain and in Paris. Partech has an annual deal flow of over 4,500 opportunities. So these collaborations provide us with access to comprehensive sourcing of digital ventures, not only in Europe but also in the U.S. startup ecosystem. And we have the opportunity to co-invest in early stage companies together with them, and we act as exclusive Partech's partner in the workforce solution sector. Beside this investment, we have picked up also four other examples of ventures from a portfolio of more than 10 ventures. The first one is based on big data, and it is called Adecco Analytics. It has been announced in France in November – the fourth quarter in November of last year. And Adecco Analytics has a suite of six application in a Software-as-a-Service subscription model.

And Adecco Analytics allows our external and internal customers to have access to [ph] dip inside (19:23), and this in real time about the labor market, and then sends to a database of more than 150 million data. The second example is also coming from France but also from San Francisco as the company is based over there. And Talentoday is a so-called people analytics specialist with combining traditional psychometrics with big data. And the software of Talentoday enhance talent acquisitions and also talent developments. Talentoday has already blue-chip clients like Toyota, Pearson and Pandora, and we are rolling out this people analytics software in various countries.

The third example is also an investment we have done in an external venture located originally in Belgium, and it is a company Beeple. It is an end-to-end online staffing tool focusing on high volume recruitment in retail hospitality and even verticals. And starting in Belgium, we will now roll out these solutions in the other countries. And then, we take a long flight to the other part of the world, to China. And WoWooHR is a very good example how we co-create with the best, and in this case together with Alibaba and its subsidiary, Alipay. WoWooHR is a digital platform providing online human resources services.

In China, you have more than 770 million workers, and out of this 770 million workers, only today, 20 million workers are benefiting from a professional human resources environment. So the ambition of WoWooHR is to become somehow this Chief Human Resources Officer of the Chinese small companies and entrepreneurs. This as an example on how we put our strategy into application. Now, coming to the concluding messages. In 2016, we closed the revenue growth gap with the peers. We maintained the leading profitability while investing for the future, and we will return €300 million of excess cash back to our shareholders. The growth momentum continued in January and February, and we will continue to focus on our strategic and operational progress in 2017 by performing, by transforming and by innovating.

I thank you for your presence in this call, your attention. And now, I would like to open the line for the questions. And to be fair for everyone, may I ask you please to limit yourself to two questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question is from Denis Moreau from UBS. Please go ahead. Mr. Moreau, your line is open.

Denis Moreau
Analyst, UBS Ltd.
Q

Yeah. Good morning. This is Denis Moreau, UBS. My first question relates to the ratio between perms and temps. It seems that temps continue to outperform perms. So perhaps you could give some details on that in Q4. And is that the trend that you expect to continue to prevail in 2017? My second question is on your digital strategy, so big focus in this presentation, and I find that very interesting. But my question is how much will it cost, and what are the implications and the effects on the gross margin, on the SG&A, and also on the cash flow? And perhaps you could say a bit more on Partech Ventures on the amount of capital that you intend to deploy with this project. Thank you.

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

Thank you. Let's start with – we saw good performance in the temp business in the quarter, and also relative to the market. So we're very pleased with that. What you saw in the permanent recruiting business was impact the quarter is that the impact of the Brexit is having an impact on our permanent recruiting business, which is down 15%. That was more than offset by good growth in the temp business. In North America we see that continued stability in the perm is not a lot changing, that means the rest of the perm business is going. Going forward, we have this certain visibility we have, you saw the Brexit impacting it. Our strategy is to grow our permanent recruiting business and we'll report every quarter how we achieved that, but the Brexit played into the quarter.

On the digital question, that is a good question but hard to answer. That specifically, what is important to know is that we have committed three goals to lead their relative growth, continue to work on our margin leadership, our cash conversion, and we will – with the partnering approach we take and development of a digital [indiscernible] (25:30) we'll build this business [indiscernible] (25:33). We continue to deliver financial health and work on our margin leadership. Partech is a very interesting venture. It's a leading venture capital fund into the digital space. They give us access to through businesses. And for us, it's again, a partnering approach where we get excess to deal flow, we learn about ideas, and that doesn't mean that we're going to make significant [ph] help (26:03) but it's the excess to the deal flow, what we learn and what's happening in venture capital.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

And we have invested €10 million in Partech.

Denis Moreau
Analyst, UBS Ltd.
Q

Okay. And when you say that you'll work on your margin leadership, does that mean that you expect your investments in digital not to wait on your EBITA margin in 2017, or do I expect actually some impact there?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Our goal is to continuously drive operating leverage into the business. This year, we have reinvested some of that in strengthening the future and digital is part of that. And we want to make sure, with the partnering approach, that we can continuously do that.

Denis Moreau
Analyst, UBS Ltd.

Q

Okay. And the €10 million investment in Partech, do you expect to increase this number in 2017 to invest more, or do you have any guidance on that, please?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

And this is [indiscernible] (27:05) a very exciting opportunity comes along that venture capital, these are not meaningful. It's like partnering with – like Alain has shown some examples which we already do it, and we deliver those while we also deliver on our margin leadership and our cash flow conversion.

Denis Moreau
Analyst, UBS Ltd.

Q

Okay. Thank you.

Operator: The next question comes from Mr. Nicholas de la Grense from Merrill Lynch. Please go ahead.

Nicholas de la Grense
Analyst, Bank of America Merrill Lynch

Q

Good morning, guys. Two questions for me, please. The first is just with regard to the divisional reorganization in North America and the UK. I'm just wondering if you can explain kind of how your current approach in those two regions is similar where it differs, what's going to change post the reorganization, and what you anticipate the benefits to be. And I suppose, are there other regions where you might consider the same thing? And then, the second question on France, you're back in line with the market, it looks like most of the bigger players are in line or ahead of the market, which is a reversal of the trend that we've seen in the last few years. I'm just wondering if you could add any kind of feedback on that, what's happening in terms of capacity dynamics if the smaller players are maybe struggling to compete in some regions. Thanks.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Good. So regarding the reorganization in North America and UK and Ireland, so let's start from the current organization. So the current organization is that we have one executive committee member, John, leading UK and Ireland, and we had Bob leading North America, so U.S. plus Canada. And inside this geography, we had substantial business in both geography, substantial businesses in General Staffing and Professional Staffing. And by combining the two and by working by business line, so one business line will be Adecco and the other one being Professional Staffing we will have more focus, and with more focus we will also have more benefits. In these two markets, there are still untapped potential when you see that the U.S. market is still fragmented. We had the good opportunities of growth there, and we are convinced that by having this business line focus, we will put and drive the performance to a higher level.

Now, if your sub-question is regarding, do you plan to do this in other part of the group, the answer is no. We have very good substantial business in both Professional Staffing and General Staffing, almost 50/50 in the combination of the two region, and that's why we are doing that there, but no plan to do that in other part of the group. Now, coming to France, the market indeed we were very pleased with the performance of the fourth quarter, 9% organic and they are adjusted by trading days. The performance is coming from a strong growth in automotive, also in logistics and distribution and the construction. It's a broad based growth with the three main drivers I have mentioned it. I think there was, indeed, commitment to come back in the market, and along with the peers, that's something we have done in 2016, and we have been pleased with that. Also, because we are keeping our profitability leadership in this market.

Nicholas de la Grense
Analyst, Bank of America Merrill Lynch

Q

Thanks. Sorry. Just one quick follow up on France. I suppose what I was getting at is if all the big players are growing faster than the market yourself included, has something changed, perhaps the smaller players become less competitive, or is it just difficult to look at one quarter and make forecast on trend?

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

If I look at some of the medium competitors, I wouldn't say that they are growing less than we do. It depends also of your activity mix. I know that some of them has, for example, a very big portion of automotive, and so as I told you, the automotive is the fastest-growing segment in our portfolio. If your portfolio is highly represented in automotive, your growth will be higher than on average. So the mix of your activities is also very important. And I wouldn't say that the medium are growing no less structurally than the big one. I would make this conclusion.

Nicholas de la Grense
Analyst, Bank of America Merrill Lynch

Q

Okay. Thank you very much.

Operator: We have a question from Mr. Alain-Sebastian Oberhuber from MainFirst. Please go ahead.

Alain-Sebastian Oberhuber
Analyst, MainFirst Schweiz AG

Q

Yes. Good morning, gentleman. Alain Oberhuber, MainFirst. My two questions; first, regarding Professional and General Staffing, could you give us a little bit more light what was the growth rate in both areas, U.S. and UK in both segments? And when do you expect that the professional staffing really kicking off in order to have operating leverage coming [ph] through design (33:04) margin business? And the second question is what do you expect from [indiscernible] (33:10) in U.S. on taxes as well as potential acceleration of organic growth?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Yes. So I'll start with answering the question on the General Staffing and the Professional Staffing we resuming on the UK and the U.S. Let's start with the U.S. we were pleased with the quarter both from a revenue point of view, and so stability in both General Staffing and in Professional Staffing, which was a little better than we had last quarter, but we see that positive stability. If we look at the UK, we see that our growth is driven in the General Staffing. We're making new client wins with good customers with a good future, that drives the growth. We saw this quarter set back a little bit with the Brexit in the permanent recruiting, which was down 15%, and that weighs into the margin. Our margin is market right for the UK market. And we're working with productivity to improve that. But you see the Brexit has impacted permanent recruiting, and also some of the regional professional staffing business around [indiscernible] (34:24) area. And therefore these new client wins are important to us that we derive the growth, while the Brexit is a reality and has impacted parts of the business.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

And on your second question, Alain, regarding the corporate tax development in the U.S. I think, there is a lot of unclarity and uncertainty regarding the different announced measures. So it's not only about the corporate tax decrease, but it is also about the kind of investment, infrastructure investment that will be done by the new administration Trump. So at this stage, even if – it should be turn positive for us if investment are done, because investment means growth in employment [indiscernible] (35:19). And for sure, also, if corporate tax would be reduced, it would also mean a positive impact for us as we have a good portion of our profit coming from the U.S. But at this stage, we are waiting for more clarity.

Alain-Sebastian Oberhuber
Analyst, MainFirst Schweiz AG
Q

Thank you. Hans, may I have a follow-up question regarding what you just said. Could you give us some sense when do you expect Professional Staffing to outperform the General Staffing, will that already be this year in Q4 or will it be earlier?

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

Let's not forget that 70% of our Professional Staffing revenues are coming from two countries, U.S. and UK. So this point of, let's say, leverage [indiscernible] (36:11) is very linked to this two geographies, and everybody knows where UK is today with the Brexit, again, a lot of unclarity. You see that in the perm we had a minus 15% in the fourth quarter of perm, which has somehow kind of wait-and-see attitude of all customers regarding the Brexit development. Also, in the U.S. the perm has slightly slowdown because there also everybody is waiting and expecting more clarity about which area will be developed, and then the perm recruitment will take off again. That we are today in this, let's say, in that type of wait-and-see environment in both countries. We have 70% of our revenues.

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

Just to give a little bit more color to that, is we look at our relative performance versus the market in Professional Staffing, we're performing well. It is, as Alain set out, we see the Brexit in the UK, and we see that post stability in the U.S., whether it would be compared versus the peers, we have a relative good performance. We would like to see more growth, but the market plays into the numbers.

Alain-Sebastian Oberhuber
Analyst, MainFirst Schweiz AG
Q

Thank you very much, gentlemen.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

Thank you, Alain.

Operator: The next question comes from Mr. Chris Gallagher from JPMorgan. Please go ahead.

Christopher Charles Gallagher
Analyst, JPMorgan Securities Plc

Q

Good morning. A couple of questions. The first around digital. Do you think that you can cut costs? Do you think that maybe you could put some numbers around that and [indiscernible] (37:58) number on SG&A into the first quarter? And then the second question, can you talk a little bit about the pricing environment and how that's evolved and kind of ongoing 30-basis point decline, and [indiscernible] (38:12) gross margins through the year, is that the sort of level we think it continues at, or what's your view into 2017? Thank you.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

So I'll start. There are two parts of digital. One part of digital is new businesses which will give us new revenue and business, more opportunities, and there is a part of digitalizing the core of our business. And we discussed before that we have done a deep analysis this year on how with IT and digital, we can drive productivity. And what our goal there is, is that we find new ways to continue our cost leadership, improve our conversion ratio to come to all our margin objectives and improve our margins through the cycle. So we're excited that there are a lot of digital opportunities, which will give us good momentum to do so. So that should reassure our shareholder that we can continue to have a good margin structure, while we're digitalizing our business. The second part is [ph] more specifically (39:19) on the quarter, SG&A sequentially up 1% into Q1 something we're thinking.

Christopher Charles Gallagher
Analyst, JPMorgan Securities Plc

Q

Okay. Thank you. And maybe on the outlook for gross margins.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Regarding your questions concerning the pricing environment and the pricing pressure environment, for us, the pressure is continuing like it has been always the case. Nothing different. We expect that this pricing pressure will continue at large, especially large accounts, which are very professional in the way they procure our services. So the pricing pressure will continue as it has been during the previous years.

Christopher Charles Gallagher
Analyst, JPMorgan Securities Plc

Q

Okay. Thank you. And maybe just one quick follow up on that. [ph] Proceeds (40:17) plays a role in pricing [ph] in France (40:20). Have you seen any change in how your competitors have dealt with that, or what's your view with the French elections coming up?

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

To think – your first part of question was [indiscernible] (40:35).

Christopher Charles Gallagher
Analyst, JPMorgan Securities Plc

Q

[indiscernible] (40:37).

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Yes. [indiscernible] (40:40). I always come back to the origin of the [indiscernible] (40:43) which was to increase the competitiveness and attractiveness of France. And this challenge is remaining also for the next President to come. This has nothing changed. So I don't expect personally any change in 2017. We will see, first of all, which President will be elected. But I'm convinced that in a way or another, this new President, and somehow you see that in the program coming out, that they will continue to work on the attractiveness and the competitiveness of the country. So [indiscernible] (41:27) we will see if it will stay in the same, let's say, format, as it is today or if it will change our format. But for me, it won't be before the end of 2017 and probably at the earliest in 2018 if we see any change.

Christopher Charles Gallagher
Analyst, JPMorgan Securities Plc

Q

Okay. Thank you very much.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

You're welcome.

Operator: We have a question from Mr. Tom Sykes from Deutsche Bank. Please go ahead.

Thomas Richard Sykes
Analyst, Deutsche Bank AG

Q

Thank you. Morning, everybody.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Good morning, Tom.

Thomas Richard Sykes
Analyst, Deutsche Bank AG

Q

Good morning. So just to – could you maybe just address overall the operational gearing and when you would expect – if you're growing at 4%, 5%, do you think you'll see more operational gearing going forward? Is that obviously in France and Italy? If you add back the accrual issue in France, you're growing pretty quickly, but you're not generating operational gearing there. So when should we expect that you start seeing some better leverage, please?

And then, just on the U.S. business, how do you explain the disconnect between the better industrial data and the fact that general U.S. staffing isn't really improving that much, because ISM yesterday was at the 20-year high in the new orders and yet you're flat. So, it doesn't – there seems to be quite a big disconnect there. Is it just energy related or how would you think about that, please?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

If we look at the operating leverage, and I'll start with Q4, we see good operating leverage. If you look at the FTE productivity, 2% increase in FTE with 6% sales growth. If I also look on the – and we improved over the quarters on that statistics. SG&A is up 3% on 6% sales growth, while we're making some investments for the future. And I think that's important that we continue – if you look at the FTE operating leverage, we continue to perform very strongly, also our conversion ratio continues to be very strong vis-à-vis the industry.

We are reinvesting some of that in the growth for the future. If you look to Q1, we see continued [ph] in fact (43:55) the pricing environment Alain alluded to and our goal is to offset that with operating leverage.

Thomas Richard Sykes
Analyst, Deutsche Bank AG

Q

Right. So do you – you don't see your SG&A continuing to go up organically at the same rate as it has been, is that fair to say?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Our objective is while we want to also make healthy investments for the future is that we offset the – what we see on pricing and operating leverage and improving our mix, but those offset each other.

Thomas Richard Sykes
Analyst, Deutsche Bank AG

Q

Okay. But does that give you positive gearing or just enable you to grow your profit at the rate of your sales growth?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

What we are doing is continuously driving the operating leverage, but some of the operating leverage we're reinvesting into driving investments for our future.

Thomas Richard Sykes
Analyst, Deutsche Bank AG

Q

Okay.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

And we want those to offset each other and that's important.

Thomas Richard Sykes
Analyst, Deutsche Bank AG

Q

Okay.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

[indiscernible] (45:00)

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

And on your second question, Tom, you are somehow right with the disconnect between the PMI figures and the industrial or General Staffing. When I benchmarked our figures also to get a feeling from the market and so on, I think we had a slight improvement when you see that some of our peers are suffering from serious decline in the U.S. market.

If I looked at our fourth quarter figures and the slight improvement, it's coming from consumer goods. It's coming from also industrial goods and services. It's continuing, let's say, slight growth in the healthcare and auto for us. We had also some new wins end of last year and also oil and gas is bottoming out which is also important. It's bottoming out from very difficult quarters in the past.

Thomas Richard Sykes
Analyst, Deutsche Bank AG

Q

Okay. And in the 4%, 5% January, February, is the U.S. business itself in year-on-year growth?

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Yes.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Yeah.

Thomas Richard Sykes
Analyst, Deutsche Bank AG

Q

It is. Okay. Great. Fine. Thank you very much.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

You're welcome, Tom.

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

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

Q

Yes. Good morning, gentlemen. First question on the impact of the timing of Christmas in December, you already did have some impact, but if you could give us maybe some more color on that or if you like to estimate loss and, of course, the reversal impact in January?

Secondly, looking at the margin development, if I adjust for the impact of release in France in Q4 2015 and the impact of the holidays in Germany and, of course, also, at the same time, some positive impacts on the timing of the Christmas holidays, I estimate that the underlying margin went up, the EBITA margin was about 10 basis points to 20 basis points, is that a fair assumption?

And yeah, is it also something, let's say, the kind of leverage you see going forward, so top-line 6% growth and 10 basis points to 20 basis points improvement is a logical number to calculate for next year, of course, depending on what the market percentage you will do?

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

Yeah. Let me start with the timing of Christmas. That is a little hard to be that precise to build, but in fact, the way timing of holidays and trading periods between December and January full, you can't be that precise, it's maybe not answering your question. But what we're seeing is Jan and Feb is off to a solid start, between 4% and 5%. [ph] We had the 6% (48:08), it's just – it's hard to be that precise. And I'm sorry that I can't fully answer the question, but that's – you can't – it's hard to be that precise.

On the impact, as you rightly pointed out, in France in the fourth quarter of 2015, we had the social security benefit. In Germany, the timing of the bank holidays. Those two together explain about 30 basis points of the 40-basis-point year-on-year reduction and those are all coming in the gross margin line. If we look what we would like to do, our target is that we will see continued price competitiveness, that's not going away.

We are focusing with segmentation and our strategy of permanent recruiting. But also that the operating leverage offsets some of the pricing we see. That is our target. Our target is that they do offset each other. They did not fully offset each other in Q4, but if you look at the underlying FTE, productivity we delivered was very strong, and our conversion ratios are strong, because as I pointed out, we're also making some investments for the future.

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

Maybe one last question on the [indiscernible] (49:23) the increase from 6% to 7%, as I understand how it works that, in principle [ph] for – this is out of (49:33) January, [ph] but it has normally (49:35) already some impact on the December figures. Is that correct that already in December, you saw a small positive impact from the increase or are there any other thing that's offsetting that positive impact?

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

There's very limited positive impact in December.

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

Okay. Clear. Thanks.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

You're welcome, Hans.

Operator: The next question comes from Anvesh Agrawal from Morgan Stanley. Please go ahead.

Anvesh Agrawal
Analyst, Morgan Stanley & Co. International Plc
Q

Hi. Good morning. Can I ask one on North America, please? Now, if we look at your organic growth adjusted for trading days, it is slightly below the market, and your peer has alluded to the competition increasing from the likes of hire.com which is like taking away the market share now. Are you seeing something like that in the U.S., and what's your strategy to counter that, please?

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

If I look at especially our peer group, I wouldn't say that we are losing market share. I think that we are outperforming, one, and we are in line with the others, at the very good profitability level. So I wouldn't come to the same conclusion.

Anvesh Agrawal
Analyst, Morgan Stanley & Co. International Plc

Q

But if you look at the market, the market kind of grew at average rate of 2% and your growth adjusted for trading days around 1%, so it's still in the performing new market.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Yes, but it also depends on your mix. It depends – it's difficult to compare. You need to compare then industrial with industrial and professional and perm and so on. So I wouldn't draw too rapid conclusion that we are losing market share, because overall, we are at 1% growth. Don't forget in the U.S. we have a 50/50 ratio between General Staffing and the other activities.

Anvesh Agrawal
Analyst, Morgan Stanley & Co. International Plc

Q

So have you seen then the acceleration in January, because the market data was quite strong in the U.S. or it's still continuing at the same level as it was in Q4?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

We see a good start of the year in the U.S. and that puts us on track, as we said, on the global level between 4% and 5% growth [ph] and that (51:56) when we announce the Q1 results, we can provide more details on the U.S. business.

Anvesh Agrawal
Analyst, Morgan Stanley & Co. International Plc

Q

Can you shed some light on the exit rates by region just to give more color on your growth, please?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

We normally do not do that. If you just look at the exit rate, that's 4%, 5%. And if we look at the trends, we do not see underlying in the trends any changes in the trends, which I would love to mention.

Anvesh Agrawal
Analyst, Morgan Stanley & Co. International Plc

Q

Okay. Thank you so much.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

You're welcome.

Operator: [Operator Instructions] The next question is from Mr. Michael Foeth from Bank Vontobel. Please go ahead.

Michael Foeth
Analyst, Bank Vontobel AG

Q

Yes. Hello, gentlemen. I have two questions. The first one is on your share buyback. Could you give us the sort of timeframe that you have in mind for executing the buyback? Can we expect that one year after the approval you will already have bought back all the shares and cancel them?

And the second question would be on if you could comment on your MSP business. I was wondering how the spend on the management is developing in 2016 year-over-year and how much of that is in North America and in the rest of the world. Thank you.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

I will – so regarding the SBB, the objective is to accomplish the program in 12 months.

Michael Foeth
Analyst, Bank Vontobel AG

Q

Okay.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

The MSP business year-on-year is giving us good growth, but it's still a small percentage of our business. So we have double-digit growth. It's good growth, but it's a small percentage of our business.

Michael Foeth
Analyst, Bank Vontobel AG

Q

Okay. Thank you.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

You're welcome.

Operator: We have a question from Suhasini Varanasi from Goldman Sachs. Please go ahead.

Suhasini Varanasi
Analyst, Goldman Sachs (India) Securities Pvt Ltd.

Q

Hi. Good morning. Thank you for taking the questions. Two if I may please. One, can you give us an update on how the branch network efficiency and the benchmarking exercises progressing? Have you already started seeing efficiencies? Are you on track to use these efficiencies to offset incremental IT investments for 2017?

And perhaps one follow-up to the margin question that was raised earlier. EBITA margin, obviously, came in at 5.0% versus 5.2% last year. In the context of the continuing pressure on gross margins on the temp staffing side and the incremental IT investments, when can we actually expect the margins to improve from these levels given your target of improvement through the cycle? Thank you.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Thank you. We indeed talked about optimizing our productivity with new ways. We are seeing that good opportunities and we're very excited with that. That requires also some IT investments. So we'll report every quarter how we progress on that initiative. If you look at the EBIT (sic) [EBITA] (55:19) margin this year from the 5.2% to the 5%, what's important to mention also is that the French social security and the German days is [ph] winning (55:28) into the comparison base. If we look at the fourth quarter, we drove good productivity.

Our goal for Q1 is that we continue to drive strong operating leverage to offset some of the pricing pressure we see so that while we're making some of the investments for the future. And then, every quarter we will report how this initiative – because this is a large-scale initiative on how you digitalize the core of the business, that is a program which in evolution over time we will blend into the business.

Suhasini Varanasi
Analyst, Goldman Sachs (India) Securities Pvt Ltd.

Q

Okay. Thank you. And the one on improving the margins from here. I mean are you happy with where consensus is, which is basically at flat margins for both 2017 and 2018, especially given that the growth is actually coming in a little bit better than what you had expected, which is 4% growth?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

I am pleased with the operating leverage we're delivering versus the peer group. If you look at our FTE productivity, is very strong, continues to be strong and improving. Our conversion ratio continues to be [indiscernible] (56:38), while we're also making some investments for the future. So if you look back on this year, we're providing back very strong cash flow return for our shareholder, whereas in the P&L we have made some investments for the future to sustain our margin leadership and growth.

Through the program we started, we're confident that we [ph] will come to our (57:00) margin target through the cycle. I am more than confident that we will, but going from fully [ph] branch (57:11) based to more digital is an evolutionary strategy. The building blocks are falling in place. That will take time, but I am confident we will deliver all our margin targets.

Suhasini Varanasi
Analyst, Goldman Sachs (India) Securities Pvt Ltd.

Q

Understand. Thank you.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Thank you. Next question now, please. If any.

Operator: We have actually a follow-up question from Chris Gallagher from JPMorgan. Please go ahead.

Christopher Charles Gallagher
Analyst, JPMorgan Securities Plc
Q

Sorry, gents. One more, if that's all right. Just around capital allocation going forward. Maybe talk a little bit about your plans for some bolt-on acquisitions or if you're going to be looking at something return in capital?

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

Remember Chris when we met in January 2016 at the IR Day, we said that one of our principles would be to return the non-used excess cash back to our shareholders. If you look back at 2016, we made few acquisitions. We did Penna in UK. We did D4 in the U.S. We did also a small one in Finland. And at the end of year, as agreed and committed, we gave back the excess cash, especially as we had also this positive aspect of the merger of Beeline into IQNavigator.

Going forward, we will keep this in principle, so we will look at opportunity and we will consider opportunity if they are accretive for us. And at the end of 2017, we will again look at the ratio, net debt on EBITDA. We have committed to have a ratio of one through the cycle and, again, we'll make the same calculation as we have done in 2016 and decide if yes or not we can and we will then give back the excess cash back to our shareholders.

Christopher Charles Gallagher
Analyst, JPMorgan Securities Plc
Q

Clear. Thank you.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

You're welcome, Chris.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

Thank you very much for your presence, your questions. And I'm sure that we will see many of you on our road show over the coming weeks. I take also the opportunity to mention two dates for your diaries, the first one being that we will release our first quarter 2017 results on the 9th of May. And second that we will organize an Investor Day on the 21st of September.

And with that, I wish you an excellent day and talk to you soon. Bye-bye.

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.