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Adecco SA (ADEN.CH)

Q4 2014 Earnings Call

CORPORATE PARTICIPANTS

David J. Hancock
Head-Investor Relations

Patrick de Maeseneire
Chief Executive Officer

Dominik de Daniel
Chief Financial Officer & Head-Global Solutions

OTHER PARTICIPANTS

Chris C. Gallagher
JPMorgan Securities Plc

Paul D. Sullivan
Barclays Capital Securities Ltd.

Alain-Sebastian Oberhuber
MainFirst Schweiz AG

Hans Pluijgers
Kepler Cheuvreux

Laurent Brunelle
Exane SA (Broker)

Nicholas E. de la Grense
Bank of America Merrill Lynch

Tom R. Sykes
Deutsche Bank AG (Broker UK)

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

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, good morning. Welcome to the Adecco Q4 Results 2014 Analyst Conference Call. I am Maria, 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'll be a Q&A session. [Operator Instructions] The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Mr. David Hancock, Head of Investor Relations; accompanied by Mr. Patrick de Maeseneire, CEO; and Mr. Dominik de Daniel, CFO of the Adecco Group. Please go ahead, gentlemen.

David J. Hancock
Head-Investor Relations

Thank you very much. Good morning and welcome to Adecco's fourth quarter and full-year 2014 results conference call. Patrick de Maeseneire, Group CEO; and Dominik de Daniel, Group CFO, will lead you through the presentation today, followed by a Q&A session.

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 the agenda today. Patrick will present the operational highlights, followed by an overview of the country performances. Then Dominik will review the financials. And finally, Patrick will make some comments on the outlook. We will then open the line for your questions.

With that, Patrick, I hand over to you.

Patrick de Maeseneire

Chief Executive Officer

Thank you, David. Good morning, ladies and gentlemen, and welcome to our full-year and Q4 2014 results conference call. First, a few remarks on the results for the full-year 2014, before I go into more detail on our performance for the fourth quarter.

On this and the following slides, I will give our growth rates in constant currency unless otherwise stated. Revenues for the year increased by 4% to €20 billion. General Staffing grew by 4%, led by the Industrial business which grew 6%. Professional Staffing revenues increased by 1%. And we grew revenues by 10% organically in Solutions, which comprises our Lee Hecht Harrison, Pontoon and Beeline brands.

Geographically, we saw continued strong growth in the emerging markets and an acceleration in North America. After solid growth in the first six months, Europe, however, slowed down in the second half, driven mainly by France and Germany. Our gross margins continued to improve, up 20 basis points to 18.5%.

We benefited from our strict price discipline, a better service and country mix, and the impact of higher French CICE subsidies. Our focus on cost control was maintained. SG&A, excluding restructuring costs, was up 3% year-on-year or up 2% on an organic basis. Altogether, these developments led us to achieve an EBITA margin, excluding restructuring costs, of 4.8%, up 40 basis points.

For 2014, the board of directors proposes a dividend of CHF 2.1, an increase of 5% over the prior year and a 49% payout ratio of adjusted earnings. This reflects our solid balance sheet, our strong performance in 2014 and our confidence in the outlook.

We continue to be very focused on reaching our EBITA margin target of above 5.5% in 2015. Based on the good progress on our six strategic priorities, based on recent trends and more favorable economic conditions expected going forward, we are convinced we will achieve these targets.

Let me now focus on the highlights of the fourth quarter, where my colleagues around the world delivered again a strong performance. We had revenues of €5.2 billion, an increase of 2%. Gross profit grew by 5% and the gross margin was 18.9%, up 60 basis points year-on-year.

Costs continued to be well-controlled. SG&A, excluding restructuring costs, was up 2% year-on-year and up 2% sequentially. This resulted in EBITA, excluding restructuring costs, of €272 million. The EBITA margin, excluding restructuring costs, was 5.3%, up 50 basis points year-on-year. This is our strongest-ever margin in a fourth quarter.

Coming into 2015, in January and February, revenues were up 4%, adjusted for trading days. This was flattered slightly by the favorable timing of holidays in January. But the underlying picture shows a clear improvement compared to the end of 2014.

Let's have a look at the fourth quarter operating performance in more detail. I will start with the revenue development by region. In Europe, revenues declined by 1% in the quarter, compared to a growth of 2% in Q3, with the slowdown mainly coming from France and Germany. Within Europe, the strongest growth rates continued to be in Iberia and Italy.

In North America, growth remained solid with organic growth increasing from 5% in Q3 to 6% in Q4. This growth was driven by strong performances in industrial, and finance, and legal. Growth in the rest of the world also improved slightly to 6% in Q4 compared to 5% in Q3.

In Japan, revenues were up 1% in the quarter. In Australia and New Zealand, we returned to growth with revenues increasing by 4%. The emerging markets revenues grew by 10%, led again by continued strong double-digit growth in Eastern Europe.

Looking next at the revenue development from a business line perspective, we see that the Industrial business continues to be the main driver of growth. In Q4 2014, revenues in Industrial grew by 4%, down slightly from the 6% growth in the previous quarter. Growth remained strong in North America, but slowed in Europe.

In Office, revenues grew by 1% year-on-year and in line with Q3. Our Office business in North America improved, but it was offset by weaker growth in Europe and Japan.

Professional Staffing revenues declined by 1% as Information Technology and Engineering & Technical softened.

Finally, within our Solutions business line, we saw continued strong double digit revenue growth in our VMS, MSP, and RPO businesses.

Let's also have a look at fourth quarter revenue development by service line. Temporary staffing is our largest service line. Growth here was 1% this quarter, after 2% growth in Q3. Revenues from permanent placement continued to grow strongly, up 14% in Q4, compared to 15% growth in the previous quarter. Growth in outplacement slowed further to 3% this quarter from 5% in Q3, mainly due to softer demand in North America, given the continued improvement in the U.S. economy.

We go through our main markets in more detail now. In France, revenues were down 5% on the prior year. Revenues in our large Industrial segment decreased by 3%. Revenues in Office and in Professional Staffing also continued to decline.

From an industry perspective, demand remained subdued across most sectors, but was especially weak in construction, with revenues declining by over 20%.

Perm revenues in France were up 17% this quarter, compared to up 15% in Q3, driven by our investments in this area. The EBITA margin, excluding restructuring costs, was strong at 6.8%, up 80 basis points year-on-year.

Coming into 2015, there are signs of improvement in the market in France. In January and February, our revenues were down 1%, adjusted for trading days.

We turn next to North America. Revenues increased organically by 6%, with growth of 10% in General Staffing and 2% in Professional Staffing. Within General Staffing, we saw good growth in the Industrial business at 13%. This was again driven by good demand from the logistics, chemicals, and technology sectors. After returning to growth in Q3, the Office business continued to improve with growth of 5% in Q4.

Within Professional Staffing, we saw growth of 1% in IT, 9% in Finance & Legal, and 15% in Medical & Science. Engineering & Technical declined by 3%. In perm, we delivered another strong performance with revenue growth of 12%.

The EBITA margin, excluding restructuring costs, was 6.5% in the quarter, up 150 basis points year-on-year. In January and February, revenues were up 5%, adjusted for trading days.

UK and Ireland now. Revenues overall were down 2%, with Professional Staffing and our large IT segments both down 2%. Our Office business line was also down 2%. Revenue growth in permanent placement continued to outpace that in temporary staffing. Perm revenues were up 9% in the quarter.

The EBITA margin was 2.4%, down 10 basis points compared to last year's EBITA margin. This excluding restructuring costs. Revenues in January and February were up 1%, adjusted for trading days.

As mentioned previously, due to changes for some of our UK master vendor and related sub-supplier agency contracts, third-party revenues that were previously reported gross, are now reported on a net basis. This has the effect of reducing the reported rates of revenue growth in the UK and Ireland. Excluding this impact, revenue growth in Q4 and in January and February would have been 4% higher than reported.

In Germany and Austria, revenues were down 2% in Q4. This weakening compared to Q3 reflects both a tougher base and softer demand in parts of the manufacturing sector, negatively impacted by geopolitical uncertainties.

Our Industrial business line was down 2% in the quarter. Revenues in Professional Staffing fell by 1%. Engineering & Technical, which is our largest Professional Staffing business, declined by 5%, while IT grew by 11% and Finance & Legal by 2%. In our perm business, revenues continued to grow strong strongly and were up 26%.

EBITA, excluding restructuring costs, was €18 million, given an EBITA margin of 4.5%, up 60 basis points year-on-year. In January and February, revenues were down 4%, adjusted for trading days.

In Japan, revenues grew 1% in Q4. In General Staffing, revenues were flat, but we continued to see growth in our smaller Professional Staffing business. Profitability remained good at 6%, although this was down compared to the prior year mainly due to the investments related to the rollout of our global IT platform in Japan. In January and February, revenues were up 4%, adjusted for trading days.

Finally, in terms of regional performance, I'll touch briefly on some of our other markets. Iberia continued to deliver strong revenue growth, up 19% with the broadening of demand. Growth slowed both in Italy and the Benelux in Q4, largely due to tough comparatives, as they saw a strong acceleration in Q4 2013. In January and February, growth rates have picked up again in both regions.

In Lee Hecht Harrison, revenue growth slowed to 2%, while the margin remained strong at 31.3%. Yet again, Lee Hecht Harrison outperformed by far the market on the top and bottom lines.

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

Dominik de Daniel

Chief Financial Officer & Head-Global Solutions

Thank you, Patrick. Good morning, ladies and gentlemen. I will start with the overview of the P&L. Patrick already mentioned operating highlights in his introduction with revenues of €5.2 billion and EBITA of €249 million or €272 million excluding restructuring costs. EBITA, excluding restructuring costs, increased by 14% or by 13% in constant currency.

Looking further down the P&L, the effective tax rate was 17% this quarter. Discrete events had a positive impact of approximately 11% on the tax rate. Net income grew by 6%, and basic EPS grew by 9%, helped by the ongoing share buyback program.

Now, we look at our sequential revenue growth analysis. This slide shows the sequential growth adjusted for currency, acquisitions and trading days for each quarter, compared to the long-term sequential median growth for that quarter. In this way, we show the sequential growth adjusted for seasonality.

Based on this analysis, we can see that we are back in line with the long-term growth trend in Q4 2014, after underperforming slightly in Q3. In Q4, underperformance in France, Germany and Italy was largely offset by Iberia, North America and the emerging markets. While we are careful not to read too much into the sequential analysis on a monthly basis, we note that the trend in January and February suggests that we will likely move to a plus sign for the group in Q1, the first plus sign in four years.

Next, let's have a look at the year-on-year gross margin evolution. The group's gross margin was 18.9% in Q4 2014. Temporary staffing had 40 basis points positive impact on the gross margin year-on-year, driven by our continuous strict approach to pricing as well as the effect of the higher French CICE subsidy. The improvement in perm placement had a positive effect of 20 basis points. Outplacement had a positive impact of 10 basis points, while other activities had a negative effect of 10 basis points.

Now let me discuss our cost base development in the fourth quarter. As always, we monitor revenue development closely and manage the cost base accordingly. SG&A in Q4 was up 2% compared to the same quarter last year in constant currency and excluding restructuring costs.

Our Q4 2014 results include restructuring costs of €23 million, compared to €17 million in the same period last year. Sequentially, our cost base was up 2% in constant currency and excluding restructuring costs, reflecting the normal seasonal pattern. FTE head count was stable sequentially.

Turning to the cash flow statement. In Q4 2014, cash flow from operating activities was €284 million, compared to €250 million in the same period last year. DSOs in Q4 2014 were 52 days, one day less than in the prior year.

In Q4 2014, the group invested €25 million in CapEx and spent €81 million on the purchase of shares. To-date, under our share buyback program of up to €250 million launched November last year, we have acquired 825,000 shares for a total consideration of €45 million.

Net debt at the end of December 2014 decreased to €975 million, compared to €1.1 billion at the end of September. Our net-debt-to-EBITDA ratio stood at 0.9 at the end of Q4 2014.

As we look to 2015, I want to mention the impact on the net debt of the SNB's decision to discontinue the minimum exchange rate of CHF 1.20 per euro. With regard to net debt, this has two main impacts. First, the euro amount of our Swiss franc-denominated bond has increased. And second, we will have cash outflows on some of our internal hedges.

If we assume an exchange rate of CHF 1.07 for the year, these two effects would add approx €250 million to our net debt at the end of 2015 compared to year-end 2014.

As usual, I will now give some financial guidance for the year ahead. I will start with the corporate costs where we also have an impact in 2015 from the move in the Swiss franc. In 2014, we had corporate costs of €108 million, of which approx 70% were incurred in Swiss franc. The appreciation of the Swiss franc means this portion will be

higher in euro terms in 2015. As a result, corporate costs this year are expected to be around €120 million. For the group EBITA, this negative translation impact on corporate costs will be partly offset by a translation benefit on our Swiss operation.

Interest expenses, excluding interest income, are expected to be around €65 million for 2015. Amortization of intangible assets is expected to be approx €35 million. And CapEx for 2015 is expected to be around €90 million.

For Q1, we anticipate an effective tax rate of approx 28%. SG&A in Q1 is expected to increase slightly compared to Q4 in constant currency and excluding restructuring costs, reflecting the normal seasonal pattern.

Turning next to our dividend proposal for 2014. I already mentioned the effect on our financial guidance of the Swiss franc appreciation. This move also has important implications to our dividend, since we pay our dividend in Swiss franc whilst we generate our earnings primarily in euro. Since 2011, we have had a dividend policy to pay out 40% to 50% of adjusted net earnings.

For 2013, we paid a dividend of CHF 2 per share, a payout ratio of 47%. For 2014, the board of directors is proposing a dividend of CHF 2.10 per share, which represents a 49% payout ratio for our [earnings]. This reflects a solid balance sheet, strong performance in 2014 and our confidence in the outlook. This means that our proposed dividend will increase by 5% over the prior year, despite the Swiss franc strength against the euro. Note that in euro terms the increase is 20%.

Finally, I would like to comment on the acquisition we have announced this morning. As you know, because of our focus on strategic priorities, and especially the development of our worldwide IT platform, we decided not to pursue acquisitions in our staffing business for the foreseeable future. But we also said that we will consider bolt-on acquisitions in our Solutions business line. In August last year, we acquired OnForce, a small but important bolt-on for our Beeline business.

Today, we announced the acquisition of Knightsbridge, another important bolt-on deal this time for our Lee Hecht Harrison business. The combination with Knightsbridge will establish Lee Hecht Harrison as the market leader for human capital solutions in Canada and will reinforce our leadership position in key markets around the world.

Knightsbridge has a strong offering in both, Career Transition and Talent Development. And this acquisition has further broadened and deepened the service that we can offer to our clients. This is important, as we strongly believe that the continued market share gain and leading profitability achieved by Lee Hecht Harrison are largely thanks to the strength and breadth of LHH's global offering.

In terms of financials, Knightsbridge had revenues in 2014 of CAD56 million, and is being acquired for an enterprise value of CAD80 million. The transaction is expected to be EVA-enhancing in the second year after closing, and expect it to close in Q2 2015.

With this, I hand back to Patrick.

Patrick de Maeseneire
Chief Executive Officer

Thank you, Dominik.

I finish now with our outlook. As said, growth in Q4 slowed compared to the first nine months, mainly driven by weaker growth in France and in Germany. Nonetheless, with 5.3%, we delivered our best-ever fourth quarter margin, and this provides an excellent base as we head into 2015.

Since the start of 2015, the trends in our businesses in Europe and Japan have become more positive, while growth remains robust in North America and the emerging markets. Revenue growth was 4% for January and February combined in constant currency and adjusted for trading days. This was flattered slightly by the favorable timing of holidays in January. But the underlying picture shows a clear improvement compared to the end of 2014. And since GDP growth is forecasted to accelerate in 2015, we expect a further positive development of demand for flexible labor going forward.

Given our strong profitability in the fourth quarter, our good start into the year and the positive outlook, and based on the continued good progress on our six strategic priorities, we remain convinced that we will achieve our EBITA margin target of above 5.5% for the full-year 2015.

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

QUESTION AND ANSWER SECTION

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

Chris C. Gallagher
JPMorgan Securities Plc

Q

Good morning. Just a couple of questions. First of all, around the split between January and February, could you give us a rough guidance as to what the impact these holidays were, i.e., the two rates for each month. And then, in terms of Germany, what sort of movement are you seeing in Germany in business confidence, et cetera?

Dominik de Daniel
Chief Financial Officer & Head-Global Solutions

A

If we look to the impact adjusted trading days, there was basically last year in January one more trading day than this year. And therefore, we have to adjust this. If we look adjusted – February was not trading day adjusted. If we look adjusted, we have a growth rate of 4%. But January was a tiny bit better than the February, but both was rounding to 4%. If we look to Germany, your question was the outlook for Germany or what was your – can you just...

Chris C. Gallagher
JPMorgan Securities Plc

Q

Yes. Have you seen any change in your view on Germany?

Dominik de Daniel
Chief Financial Officer & Head-Global Solutions

A

I mean, if we look to Germany, it's a market that we have not yet seen like in other European markets, a clear pickup. However, we have to consider that we had a very tough prior year base. If we look in Q4 2013, we had 10% growth. In Q1 2014, we had 13% growth. So the comparison is rather tough. And it's also fair to say that we had

from Q3 2013 to mid-2014 a bigger outsourcing project, which we have successfully concluded. So our comparison is rather tough.

Now, going into 2015, still – yeah, the first two months still declining. However, we believe, given the weak euro, there's a question of time until we see also more demand in the German business because we basically see, yeah, with the exception of Germany and Norway, that things are in the other European markets really improving and Germany should definitely benefit most from a weaker euro.

Chris C. Gallagher

JPMorgan Securities Plc

Thank you very much.

Q

Patrick de Maeseneire

Chief Executive Officer

Next question, please.

A

Operator: Next question comes from Paul Sullivan, Barclays. Please go ahead.

Paul D. Sullivan

Barclays Capital Securities Ltd.

Yeah. Good morning, everybody. Just coming back to the temp margin, the 40 bps you saw, can you break out how much of that was due to CICE? And are you starting to see any benefits from the family allowance changes that are being introduced? And what impact do you think we should expect from that as we go through this year? And also does FX, was that – it does seem like there was a slight positive uplift on margin. And your thoughts on that going into 2015?

Q

And then, just coming back to your 5.5% target, where do you see this go for the biggest sort of changes in organic revenue growth, as you look at how you can achieve that revenue acceleration to reach that target? Where do you think – presumably it's France, but I just wanted to hear your views on that.

Patrick de Maeseneire

Chief Executive Officer

Paul, I will take your last question on the 5.5% target and Dominik will take your three others on the temp margin, on family allowance, and on the FX.

A

For the 5.5% target, we always said that we need mid- to high-single-digit growth in order to achieve it. Now, with the 5.3% that you've seen in the fourth quarter, we have really a very good base to start from, also on the gross margin with 18.9% in the fourth quarter, that's pretty strong. And we still see then for the full year compared to 2014 a little bit of upside on the gross margin side.

Now, if we look at the different areas where the growth should come from, indeed you're mentioning France. We see that now also that the market is turning flat from being negative in the fourth quarter. So, gradually that will improve, and that's of course an important proportion of our business. We see that North America is holding up pretty well and holding up at the same levels as we have had in the fourth quarter.

So we continue to see a pickup in Italy. Italy was slowing down a bit, also being dependent, of course, on what's going on in the German economy. So it was slowing down from 15% growth to 10% in the fourth quarter. But now we see it going back to similar levels in the first two months. Iberia keeps being strong at the same level.

We see a pickup in the Benelux and in Japan, and again, France is turning from negative into flat. And we also see that slowly gradually improving. So, that's where the growth into mid-single digits should come from now.

Dominik de Daniel

Chief Financial Officer & Head-Global Solutions

A

Coming to your question of the gross margin – temp gross margin. If we look to the temp gross margin, up 40 basis points year-on-year, and there were basically four drivers from three countries, four main drivers from three countries who had an impact. First of all, the biggest part is, of course, the French CICE because in Q4 2013, we had two months of 4% CICE and one month of 6% CICE, whereas in Q4 last year, 2014, the whole quarter was at 6% CICE.

Besides this, you mentioned the family allowance, which the lower, let's say, contribution to family allowance, lower cost for the employers, which leads to more competitiveness, lower indirect labor cost in France, which is applicable as of 2015. This has already an impact in December as the payroll of December is kind of facilitated in January. So we also benefited here already in December, which is helping also the gross margin of course in France.

And the other two impacts, now this is of course more than the half, the other two impacts is basically that Patrick also said a quarter before, we have continued good development on the healthcare cost in the U.S. Maybe you'll recall, one year, one-and-a-half years ago, we had some developments going in the other direction, but now we've continued to do well, the healthcare cost. So our U.S. temp gross margin is nicely up.

And then the last point is more related to the prior year. You may recall, in Q4 2013, there was this so-called [indiscernible] law implemented in Germany where basically when people are on vacation or sick, you're not paying the normal hourly salary. You basically pay the average salary of the last three months, more or less, where also kind of surpluses are considered like night shifts, like overtime. And especially Q4, in the prior year, so Q4 2013, we had basically a kind of true-up on all of our liabilities. So, therefore, the gross margin in the prior year was a little bit lower. So these are the different points why the temp gross margin is up, the main point why the temp gross margin was up 40 basis points.

Coming to the question with the FX, if we look to the FX, of course, given the weak euro and especially how the euro weakened throughout the beginning of this year, it had now a little bit of impact in Q4. There was really no FX impact on the margin. Now, into Q1, the gross margin could have start – has a little bit positive impact, but it's really minor. And why is this the effect? Because if you look to our U.S. gross profit exposure, it's North America which has above-average margins given the high perm, given more Professional Staffing. But it's also the case that we established 50% of the Lee Hecht Harrison business comes from North America, which is basically a business kind of – yeah, with a very high gross margin.

Now, this positive effect on the gross margin you also have to consider is then partly mitigated by the cost base because these businesses, like Lee Hecht Harrison, or also Professional or perm, have a higher cost base. So, on the EBIT line, it's really negligible, the impact from just the mix of the currencies. I hope this clarifies it a little bit.

Paul D. Sullivan

Barclays Capital Securities Ltd.

Q

That's great. Thank you very much.

Operator: Next question comes from Alain Oberhuber, MainFirst. Please go ahead.

Alain-Sebastian Oberhuber

MainFirst Schweiz AG

Q

Yes. Good morning, gentlemen. Also a question on gross margins, you explained just some of the parts of the gross margins. But going into Q1, could we see a similar development of these gross margins one-by-one, talking also about temp and the CICE impact, if there is a positive impact at all, and also the perm business and the outplacement?

Second question is regarding the recent development in UK. On an adjusted basis, it was up. Could we expect a further improvement in that direction? And how long will the negative impact because of net revenues [working] hold on? And the last question is on the – no. These are just two questions. Sorry. Thank you.

Dominik de Daniel

Chief Financial Officer & Head-Global Solutions

A

Starting with the gross margin evolution. I mean, as I said before, the increase in the gross margin, the biggest part was the CICE is different. So, coming now into Q1, we will have 6% CICE like in the prior year, so there is no base effect. It's not like last year where the French gross margin was stimulated by the fact that we had the year before 4% CICE. So this is affected from a year-over-year comparison. Definitely, not anymore.

They are – we have to say that the family allowance, the lower cost, they are helpful. And now these are indirect labor costs, which are most likely more easier to complete away. We are not saying that everything is completed away, but over time, I would say the majority is most likely competed away. But definitely and especially in the first half, we should benefit in France from this family allowance, but this has not at all the magnitude like a CICE before. So this you should consider.

Now, 18.9% in Q4 was a very strong margin. For Q1, it'll be most likely sequentially a tiny bit lower and the reason is that the Q1 temp margin is lower than the Q4 temp margin because you have also to consider that the Q4 temp margin is rather high in France because of the social tax rebate, how they, from a seasonal point of view, appear. It has more impact in Q4 than in the other quarters. It's also fair to say, if you look, for example, to Germany, the first two months, you read this in every newspaper, the sickness rate is somewhat higher. So there is a little bit of lower gross margin out of Germany.

That being said, overall, the gross margin in my view will be not – will be only a tiny bit lower from Q4 to Q1 because from a product mix, Q1 from a temporary point of view has a lower impact than the other quarters, given the seasonality. So the impact of perm and the impact of outplacement has a higher weighting in the first quarter.

Then, regarding the product, I mean perm is adding positively to the profitability. That's correct. It's doing well. Outplacement added last quarter also 10 basis points. But there we have to start to become, I think, a bit more careful because outplacement, especially if you look to the U.S. economy, is unlikely that this continues to grow there. We rather expect a minor decline from the outplacement business in terms of sales.

Alain-Sebastian Oberhuber

MainFirst Schweiz AG

Q

Just on that, Dominik, is there any pricing pressure in one of the bigger markets, or is there still a price discipline?

Patrick de Maeseneire
Chief Executive Officer

A

Overall, Alain, I would say that the market is still very rational. We have seen in one or the other markets, one or the other contracts going away from us for low pricing. That was the case in the UK to one player for a low-margin government contract. We have seen a similar development in Holland for one contract for self-employed people.

But, all-in-all, I would say that in all markets, the pricing behavior is very rational and we have no reason to think that this is going to change a lot, in view of the fact that our major players have pretty aggressive targets out there. And we all know that without price discipline that we will absolutely stick to, we will not make it to those targets. So, as the market leader, we will certainly set to be example there.

Dominik, maybe on the net revenue recognition in the UK.

Dominik de Daniel

Chief Financial Officer & Head-Global Solutions

A

In the UK, so the impact is around 4% and this you can basically consider at least for the next three quarters.

Alain-Sebastian Oberhuber

MainFirst Schweiz AG

Q

Thank you very much, gentlemen.

Patrick de Maeseneire

Chief Executive Officer

A

Next question, please.

Operator: Next question comes from Hans Pluijgers, Kepler Cheuvreux. Please go ahead.

Hans Pluijgers

Kepler Cheuvreux

Q

Yes. Good morning, gentlemen. Two questions from my side. First of all on France, you both have indicated, or as I understand, that you, over time, expect the family allowance to be completed away. But more in general on France, looking at a record level of EBITA margin of 6.1% over the full year of last year, do you expect any operational leverage from that market going forward looking at the short-term, but also looking, let's say, more at the longer-term? Do you believe there's an upside in that EBITA margin for that market?

And secondly, on the trend in January and February, well, you've given a little bit by market. But could you also give some indication by segments where you see a little pickup and where you see some deceleration going on?

Dominik de Daniel

Chief Financial Officer & Head-Global Solutions

A

If we look to France, I mean, unfortunately we haven't enjoyed a growth there, right? But we have definitely a cost base in place that if growth comes back, we will show strong leverage. There's no doubt about it. So, definitely, if we now move in from minus 5%, January, February, to minus 1%, and hopefully throughout the year also come back to growth, there is operational leverage there. There is no need that we add back costs in this country. So we really have the potential to leverage the existing business.

If we look to the different end markets into Q1, France, as I said, minus 1% in [temp effect] after minus 5% in Q4. The positive development in France is definitely automotive. Automotive is now growing beginning of the year double-digit, but construction is still weak or continues to be weak. I think these are the major changes, and food is also a little bit better, but these are the major changes in France.

In North America, the growth rate is pretty similar and it's driven by the sectors, which also have done the growth so far, which is logistics, chemicals, technology. I mean, technology has very strong development. Overall, it's now the biggest end market. Before, it was always financial services, but now it's technology in the U.S.

Italy, where we must mention the temporary year-to-date growth rate, but there is still a strong acceleration with slow dipping down from Q3. We had 15% to 10% in Q4, but less demand on Dutch companies related to supply to Germany. But the demand comes strongly back, so mainly large account also automotive who picks up.

In Italy, Spain continued strong growth of the export-oriented companies. Germany, I said, we have not seen yet there so much change in the growth rate, automotive. It's growing again in Q4. It was down in Q3. We expect this to continue. Yeah. These are the kind of major changes from a sector point of view.

Hans Pluijgers

Kepler Cheuvreux

Q

Maybe a follow-up on price, if I could. I understand you're saying that you see operational leverage, but more likely looking at what you also felt assured and maybe you passed onto your clients. Do you expect that to grow, the EBITA margin in France could still increase from the 6.1%?

Dominik de Daniel

Chief Financial Officer & Head-Global Solutions

A

Yes.

Hans Pluijgers

Kepler Cheuvreux

Q

You think so?

Dominik de Daniel

Chief Financial Officer & Head-Global Solutions

A

You have to see that, and we have done a very good restructuring. And we get a lot of cost out, but you're not only doing restructuring to get cost out, you do this that once they suspect that you have – that you're more productive. And this productivity gain we haven't achieved yet because we had no sales growth.

Hans Pluijgers

Kepler Cheuvreux

Q

But in principle, as I'm looking at, say, from four, five, six years ago, the structure of the market has not really changed with respect to segments, large contracts, that kind of things.

Dominik de Daniel

Chief Financial Officer & Head-Global Solutions

A

That's true. But you also note that the main reason that profitability levels are to the higher front is related to CICE and that in general the companies protected these quite well. And we know this is – yeah, we don't know how long the season will be. There may be other systems coming, but that's how it is.

Hans Pluijgers
Kepler Cheuvreux

Q

Okay. Thanks.

Operator: Next question comes from Laurent Brunelle, Exane. Please go ahead.

Laurent Brunelle
Exane SA (Broker)

Q

Yes. Good morning. Actually, most of my question has been answered. So, just one more regarding your human capital solution business. Can you first explain me how you've been able to improve margin by 380 bps in Q4? I didn't get the main rationale. And second, maybe can you give more color on this acquisition in term of margins, potential synergy, and is there a seasonality? Please.

Dominik de Daniel
Chief Financial Officer & Head-Global Solutions

A

I mean, if you look to our Lee Hecht Harrison business, it's kind of the country mix that basically countries with higher profitability performed quite strongly. And it's also the case that we were rather careful on the U.S. in terms of cost because we managed it always very close to profitability. And then we have seen that the U.S. was actually a little bit better than our expectation as well as the profitability, even above 20% in this respect.

Now, if we look to the acquisition of Knightsbridge, you have to know, historically, we know Knightsbridge very well because historically, before we acquired DBM, we had – in markets where we were not, like Canada, but also in others, we had kind of a local partner, and Knightsbridge was our partner historically. And we stopped this partnership, of course, in 2011 when we bought DBM because with DBM we then had our own market position as the number three at the time. And we have done quite well. So we gained shares.

But then we felt that at that moment this company would be maybe ready to make a change. We would be a good parent company given our global presence, and I think all players in the market clearly see that our clients expecting a global service and a global delivery, with consistent KPIs, with consistent reporting, with consistent processes. And this is just one of the main reasons why we continued to gain market share in this business.

Now the opportunity existed to buy the market leader. We are now the – yeah, with the acquisition of Knightsbridge, we will be declared number one in Canada and definitely believe we can leverage their international client base given our strong global presence.

Besides this, what is also important, and you maybe recall it from the Investor Day, our big majority or big part of our business is Career Transition, so outplacement services. But Talent Development is part of this area going forward. And we are actually making good progress in Talent Development, growing double digits. It's very hard to start Talent Development from scratch in a country. So our Canadian business is a pure outplacement.

Now, with Knightsbridge, we have a very good starting platform because Knightsbridge is not only strong in outplacement, but also Talent Development. So this was the other rationale to buy this company.

Laurent Brunelle
Exane SA (Broker)

Q

Okay.

Patrick de Maeseneire
Chief Executive Officer

A

Is that okay, Laurent?

Laurent Brunelle
Exane SA (Broker)

Q

Yeah. Well, not fully, but, I mean, can you maybe give more color in terms of margins and seasonality...

Dominik de Daniel
Chief Financial Officer & Head-Global Solutions

A

And the profitability – excuse me, then I missed it.

Laurent Brunelle
Exane SA (Broker)

Q

Yeah.

Dominik de Daniel
Chief Financial Officer & Head-Global Solutions

A

So the profitability of this business is slightly down. But it's just – we strongly believe we can further increase it because we expect some synergies out of this combination. So we will increase the profitability definitely there.

Laurent Brunelle
Exane SA (Broker)

Q

Okay. Great. Thank you.

Patrick de Maeseneire
Chief Executive Officer

A

Next question, please?

Operator: Next question comes from Nicholas de la Grense, Bank of America. Please go ahead.

Nicholas E. de la Grense
Bank of America Merrill Lynch

Q

Good morning, guys. Just a couple for me, please. Just on Germany first. There's a pretty weak startup to the year that you've highlighted. I know there had been a little bit of uncertainty on the part of clients because of some regulatory changes, which were likely to come in during this year. I understand those have now been pushed back. So I was wondering if you could comment on kind of whether that's being reflected in your discussions with clients and whether you think the regulatory environment might not end up being as negative as it may have become.

And then, just on the U.S., according to the BLS data we've now seen two months of sequential declines in the number of temps at work. I was just wondering how that kind of fits in with the sustainability of the U.S.'s growth and whether you think that's just kind of a short-term aberration. Thank you.

Patrick de Maeseneire
Chief Executive Officer

A

If you look at Germany, I would not say that the regulatory environment would have an impact on our business there. Again, it's true, we see a bit of a weaker start into the beginning of the year. But please recall what Dominik already said, we had the 10% growth in Q4 2013. We had a 13% growth in Q1. So we have a year, right, and we were clearly outgrowing the market there, also thanks to this big outsourcing contract that we successfully completed towards the end of Q2. So we are comparing ourselves here into a tougher base. And we expect Germany to really, as an export-oriented economy, to really benefit from euro, which is now 24% lower than exactly a year ago. And so this should gradually improve.

If we look at the U.S., as we have announced this morning, 6% growth in the quarter and 5% in the first two months, and still being driven mainly by the Industrial business, which is up 13%, still being driven by sectors like technology, logistics, chemicals, which are – yeah, I won't say only cyclical. But you cannot say that we are still early in the cycle in U.S. because we have now growth since the first quarter of 2010 continuously in the U.S.

But we don't see a reason why this growth should now slow down. We're holding up pretty strongly at the beginning of the year. With the economical outlook for the U.S. for the rest of the year, we think we will hold them to these levels. View also our position into Professional Staffing, where we still expect to improve our IT business and our Engineering & Technical business.

Nicholas E. de la Greense
Bank of America Merrill Lynch

Q

Thank you. And just one more, if I may. Could you possibly say what the percentage of sales in gross profit from permanent recruitment was in 2014?

Dominik de Daniel
Chief Financial Officer & Head-Global Solutions

A

For the full year? I think in gross profit it was close to 10% and sales around 2%.

Nicholas E. de la Greense
Bank of America Merrill Lynch

Q

Okay. Thank you very much, guys.

Operator: Next question comes from Tom Sykes, Deutsche Bank. Please go ahead.

Tom R. Sykes
Deutsche Bank AG (Broker UK)

Q

Yeah. Good morning, everybody. Just on the French gross margin, just putting all together everything that you've said, is the French temp gross margin still up year-on-year in January, February, please? Then also just on the temp-to-perm conversions, could you just say how significant they are for you, please? And whether there's a significant move upwards in the temp-to-perm conversions and particularly I suppose in the U.S.? Where are those relative to sort of previous high points?

And could you maybe just, sort of following-on from the other questions on the U.S., just say – in that 5% relative to the 6%, is there any particular movement in Industrial, Office or Professional sort of Q4 running into January-February, please? Thank you.

Dominik de Daniel

Chief Financial Officer & Head-Global Solutions

A

If we look to the French gross margin in beginning of the year, the temp margin, France is still up, of course, not at all anymore on that level it was before, but it's still up.

Tom R. Sykes

Deutsche Bank AG (Broker UK)

Q

Okay.

Dominik de Daniel

Chief Financial Officer & Head-Global Solutions

A

And this is also triggered by a lower indirect labor cost because of the reduction of family allowance.

Tom R. Sykes

Deutsche Bank AG (Broker UK)

Q

Thank you.

Patrick de Maeseneire

Chief Executive Officer

A

On the temp-to-perm conversions, Tom, I would not say that there is a major difference there or a major shift, also not in the U.S. You see our perm revenues in the third quarter were up and now they're up 12%. So, we – and we continue to do well there, if we look at the past three years, we have had a very good growth in perm.

But I would – if I see where it's coming from, on our Finance & Legal side for example, it's mainly direct perm and there is not a lot of temp-to-perm conversion, which we have a bit more on the General Staffing side. But that's not the biggest part of our perm business in the U.S., because our perm business in the U.S. is mainly driven by our Professional Staffing divisions.

Tom R. Sykes

Deutsche Bank AG (Broker UK)

Q

Okay. And is your perm, say, as a percentage of your U.S. gross profit, is that pretty close to previous highs now?

Patrick de Maeseneire

Chief Executive Officer

A

It's a bit – as Dominik was saying, for the year and for the whole group, it's 10% and in the U.S., it's a bit higher as part of our business, but...

Dominik de Daniel

Chief Financial Officer & Head-Global Solutions

A

This year. But we have to see – it is now difficult to compare because the real high was before the downturn that we had in 2009...

Tom R. Sykes

Deutsche Bank AG (Broker UK)

Q

In MPS.

Dominik de Daniel
Chief Financial Officer & Head-Global Solutions

A

...related to MPS.

Tom R. Sykes
Deutsche Bank AG (Broker UK)

Q

Yeah.

Dominik de Daniel
Chief Financial Officer & Head-Global Solutions

A

But the picture is broadly different, right? So I would assume, if – and we cannot say it anymore because we've merged some brands. I would assume if we would be pretty close, if it would be still standalone. But taking the export of MPS into account, there is still some room to grow.

Tom R. Sykes
Deutsche Bank AG (Broker UK)

Q

Okay. Okay. Thank you. And maybe just that movement in January and February, is there any – versus the kind of Industrial movements and Office movements that you highlight in the statement, is anything particular to pick out in the movement to the 5% versus the 6% in the beginning of the year?

Dominik de Daniel
Chief Financial Officer & Head-Global Solutions

A

To be honest, we said the decline – the growth rates are very similar. There is not a big change. In Engineering, we had a little bit of slow start, yeah, as projects start a little bit later. But it's not that we see now in Office and Industrial a different movement. Maybe the Industrial group is 1% less, but it's really not a major change to one player

Tom R. Sykes
Deutsche Bank AG (Broker UK)

Q

Fine. Fine. Okay. Thanks very much.

Patrick de Maeseneire
Chief Executive Officer

A

Last question, please.

Operator: Next question comes from Andy Grobler, Credit Suisse. Please go ahead.

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

Q

Hi. Good morning. Just a couple of quick follow-ups, if I may. Firstly, on the outplacement, which was still pretty strong, which is I guess a little surprising given the strength of the U.S. economy. Can you give us a bit more detail about the end markets and how those businesses are growing individually?

And then, secondly, on the U.S. Professionals operation, which was still a bit sluggish. And again, why do you think that is the case, given we're a fair way into the cycle and the economy is pretty good?

Dominik de Daniel

Chief Financial Officer & Head-Global Solutions

A

So, if we brought back just the outplacement that the U.S. was still, yeah, pretty good in this environment, we have to see that even though they have a rather good economic environment, they are really set on specific trend, and this is also related to technology. So, if we look to our client base which is growing, it's definitely the technology area because we have players in the technology sector, which I would say they are more – they have their business model, but they have not adopted because other technology players are offering different jobs and they have a need to restructure. And that's definitely drove some projects. It's not any more financial services, which was maybe one year ago more the driver, and it's to a certain extent also the pharma sector who has to restructure.

So, overall, we believe in though the economy is picking up, of course, this business should then – once have sales decline, but we don't believe it's that material because there will be even in this economy [indiscernible] structural issues where we could do some – where we put the bottom in changing the [fix].

Patrick de Maeseneire

Chief Executive Officer

A

And then, on your second question on the Professional Staffing in North America, forgive me, but I wouldn't agree with you that our business is sluggish there because we have a growth overall for our North American business of 6%. We are increasing profitability with 150 basis points. So I think this is okay.

Then, again, if you look at the Professional Staffing evolution, we're doing well in Medical & Science. As I said, we're doing well on the Finance & Legal. We would have expected for the fourth quarter to do somewhat better in Engineering & Technical. We might already see some improvement overall in Engineering & Technical in the first quarter. But like Dominik was saying, some projects were postponed there and so this might come later.

Where we obviously can do better, if you look at the recent trends, is on our IT side of the business. But there I hope you recall that in the previous year-and-a-half, we really have outgrown the market. So the growth is now slowing down somewhat, but we are very much aware of it. And we also want to grow that business further because the market is still positive on that side and there we are lagging behind a bit. But, overall, I wouldn't, if I may, not agree with you to say that the development is sluggish.

Andy C. Grobler

Credit Suisse Securities (Europe) Ltd.

Q

Okay. Fair enough. And just one follow-up on Lee Hecht Harrison. You talked about the U.S. What are the growth rates like in the rest of the business, so in France, UK, and so forth?

Dominik de Daniel

Chief Financial Officer & Head-Global Solutions

A

In France, the growth rate is positive. We're growing high-single digits. So, this is quite well. However, I have to point out that there are not a lot of new social plans decided. So I'm not that optimistic that France will grow this year in outplacement.

And if we then look to some of the other markets, it's a kind of mixed picture. UK is doing very well. But I think this is because we're making very good management. I think we're definitely beating the market there. It's also a country which we get over the acquisition of DBM. Our kind of global approach has to get yield in the UK. We have a very good management there. So, that's doing quite well. Where we have now clearly sales decline is in

countries like Spain because the economy is doing well. In Germany, we have some sales decline. So it's a mixed picture in Europe.

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

Q

Okay. Thank you very much.

Patrick de Maeseneire
Chief Executive Officer

A

Thank you.

Dominik de Daniel
Chief Financial Officer & Head-Global Solutions

A

Thank you.

Patrick de Maeseneire
Chief Executive Officer

Ladies and gentlemen, this is the closing of our fourth quarter and full-year 2014 call. Thank you for your interest in our company. And we will speak again on the 7th of May when we announce our first quarter results. Thanks again. Have a good day. Have a good evening.

Dominik de Daniel
Chief Financial Officer & Head-Global Solutions

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. Good-bye.

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