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Adecco Group AG (ADEN.CH)

Q2 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, good morning. Welcome to the Adecco Half 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

Thank you, Selena. Good morning and welcome to the Adecco Group's second quarter 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. Alain will first present the operational highlights and an overview of the segments performances. Then Hans will review the financials. And finally, Alain will make some comments on the outlook. We will then open the lines for your questions.

With that, Alain, I hand over to you.

Alain Dehaze
Chief Executive Officer

Thank you, David. Good morning, ladies and gentlemen, and welcome also from my side. I will start with the highlights of the second quarter where my colleagues delivered a solid performance for which I thank them. On this and the following slides, I will give all growth rates organically unless otherwise stated.

In Q2 2016, we had revenues of €5.7 billion, an increase of 4%. Trading days had a positive impact this quarter. Excluding this effect, revenues grew by 3%. Gross profit grew by 5%. The gross margin was 18.8%, up 10 basis points year-on-year and flat on an organic basis.

SG&A excluding one-offs was at 4% year-on-year. This resulted in EBITA excluding one-offs of €284 million. The EBITA margin was 5%, up 10 basis points year-on-year. Revenues in June were up 3%, organically and adjusted for trading days.

Let's have a look at the second quarter operating performance in more detail. I will start with the revenue development by region. In Europe, revenues grew by 5% in the quarter. This slight acceleration from 4% growth in Q1 was mainly due to the effect of trading days.

In North America, revenues declined by 1%, a softening compared to Q1. Growth was again strong in Medical & Science and Finance & Legal while General Staffing, IT and Engineering & Technical declined.

Growth in the rest of the world, including Japan, was 9% in Q2 compared to 10% in Q1. Revenues were up 4% in Japan and up double-digit in Australia and New Zealand, Eastern Europe and India.

We look next at the revenue development from a business line perspective. In Q2, revenues in Industrial grew by 4%, compared to 6% in the previous quarter. In Office, revenues grew by 5%, the same as in the previous quarter. In Professional Staffing, revenues were up 5%compared to up to 2% Q1. Finally, growth remained double-digit in all MSP business.

Let's also have a look at the second quarter revenue development by service line. Temporary staffing is our largest service line. Growth here was 3% this quarter, the same as in the previous quarter. Revenues from permanent placement grew by 9% in Q2 compared to 12% growth in the previous quarter. In outplacement, revenues were up 1% this quarter compared to 4% in Q1.

Next, I will go through our main markets by geography. Turning first to France. Revenue growth was up 3%. This is below the growth of Q1 which was 5% adjusted for trading days. This was mainly due to May, which was impacted by strikes and bad weather conditions. Revenue growth continue to be good in construction and very strong in automotive. The strikes and bad weather conditions had a negative impact on growth in retail, manufacturing and logistics.

General Staffing revenues grew by 3% and Professional Staffing growth accelerated to 10%. The EBITA margin was 6.2%, down 40 basis points year-on-year. In June, revenue growth adjusted for trading day was similar to Q2 and volumes improved slightly in July.

We turn next to North America where revenues decreased by 1%. Professional Staffing account for approximately half of our revenues and growth here was 1%. Medical & Science was up 22% and Finance & Legal was up 10%. IT declined by 5% and Engineering & Technical declined by 7%. General staffing represents the remaining half of our North America business. Revenues were down 3%. Office declined by 1% and Industrial was down 4%, reflecting the softening in the U.S. economy this year.

In perm, revenues continued to grow and were up 5%. The EBITA margin was 5.8% in the quarter, down 30 basis points year-on-year. This was due to the deleveraging of the cost base as a result of the revenue decline. At the start of Q3, we made some targeted head count reductions to align the cost base to this revenue development. In June, the revenue decline, adjusting for trading days, was similar to Q2.

In UK and Ireland, revenues were up 6% or up 3% adjusted for trading days. Professional Staffing accounts for around two-thirds of the revenues and was up 4%, with IT up 6% partially offset by Finance & Legal, down 3%. Our General Staffing business is mainly exposed to Office, which was up 9%. Perm revenues were up 5% in the quarter. The EBITA margin was 2.1% compared to 2.4% in the same quarter last year. In June, the revenue growth adjusted for trading days was similar to Q2. So far, we see no material impact on the business from the Brexit decision.

In Germany, Austria and Switzerland, revenues were up 3% or down 2% adjusted for trading days. Revenues in Germany and Austria were down 1% adjusted for trading days. A decline in automotive was partially offset by good growth in manufacturing. In Switzerland, revenues declined by 4% adjusted for trading days, negatively impacted by reductions in the export-related and medical sectors. The Q2 2016 EBITA margin in Germany, Austria and Switzerland was 5.7% compared to 3.4% in Q2 2015. This year-on-year increase was mainly driven by the timing of bank holidays. In June, revenue growth adjusted for trading days improved slightly compared to Q2 overall.

In Benelux and Nordics, revenues increased by 6% or 2% adjusted for trading days. In Benelux, revenues were up 1% adjusted for trading days. We outperformed the market in Belgium while in the Netherlands, our price discipline negatively impacted growth in a competitive market. In the Nordics, revenues were up 4% adjusted for trading days. Norway has returned to growth after six quarters of decline, and growth accelerated strongly in Denmark and Finland. The EBITA margin for Benelux and Nordics was 4.3%. This is an increase of 130 basis points driven by the timing of bank holidays and the positive effect of cost reductions measures taken in Norway. In June, revenue growth adjusted for trading days was similar to the quarter overall.

Finally, in terms of segment performance, I will touch briefly on some of [ph] older (10:47) markets. In Italy, growth continued at 9% or 7% adjusted for trading days, and the EBITA margin improved by 80 basis points. Japan continued the steady good performance with 4% revenue growth and a strong improvement in profitability. In Iberia, revenue growth was 6% adjusted for trading days with very good cost control driving EBITA growth of 21%. In Lee Hecht Harrison, revenues were flat with contrasting trends in our largest business. Strong growth in the U.S.A. and good growth in the UK was offset by declines in France and Canada.

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

Hans Ploos van Amstel

Chief Financial Officer

Thank you, Alain. I will start with an overview of the P&L. Alain already mentioned the operating highlights in his introduction with revenues of €5.7 billion and EBITA excluding one-offs of €284 million. On an organic basis, revenue increased by 4%, gross profit by 5% and EBITA excluding one-offs increased by 6%. Net income increased by 7%. This increase was negatively impacted by a higher effective tax rate this year as Q2 2015 had a greater benefit on discrete items.

Now, we look at our sequential revenue growth analysis. This slide shows the sequential growth adjusted for currencies, acquisitions and trading days for each quarter compared to the long-term trend. In this way, we show the sequential growth adjusted for seasonality. For Q2 2016, we were in line with the long-term trend just as we were in Q1. This shows that we're seeing a continuation of the growth trend in Q2.

Next, let's have a look at the year-on-year gross margin evolution. The group's gross margin was 18.8% in Q2 2016, up 10 basis points. Acquisitions had a positive effect of 10 basis points while the effect from currency movements was neutral. On an organic basis, the gross margin was stable. The temporary staffing gross margin was flat. The timing of bank holidays had a positive impact of approximately 25 basis points. This offset the impact of price and mix, which was the same as in Q1. Permanent placement had a neutral impact on the gross margin. Now, let me discuss how our cost base developed into the quarter. SG&A was up 4% organically to the prior year. This was mainly driven by a 3% increase in FTEs. Sequentially, our cost was up 1% organically and excluding one-offs. This is in line with normal seasonality.

Turning to the cash flow statements. In Q2 2016, cash flow generated from operating activities was €178 million, compared to €154 million in Q2 2015. In Q2 2016, cash flow generated from operating activities included €169 million of cash proceeds from the sale of a portion of the CICE receivables. In Q2 2015, these proceeds were €163 million. DSO in Q2 was 51 days, one day less than in the prior year. This quarter, CapEx was €18 million, compared to €24 million in Q2 2015. This mainly reflects lower capital expenditure on IT. Finally, net debt at the end of June 2016 increased to €1.4 billion, compared to €1.2 billion at the end of March. This increase follows the payment of dividends of €372 million in Q2 2016. Our net debt-to-EBITDA ratio was at 1.1 times at the end of Q2 2016.

And with that, I hand back to Alain.

Alain Dehaze
Chief Executive Officer

Thank you, Hans. Let me now comment on the current trading. In Q2 2016, organic revenue growth was 3% adjusted for trading days. Compared to the Q1 exit rate of 3% in March, April was slightly stronger, May was weaker, and June was back to 3%, all organically and adjusted for trading days. For the group, volume growth in July was similar to June.

SG&A excluding one-offs in Q3 2016 is expected to be similar to Q2 2016 on an organic basis. We are making progress in implementing our strategy and strengthening our portfolio, positioning us to drive strong performance across all business. The global economic outlook remains uncertain, and we will continue to adapt to any changes in market conditions. With our global leadership in workforce solutions, we are very well placed to support our clients with the flexible solutions they need to succeed in this volatile environment.

And with that, I would like to open the line for your questions.

QUESTION AND ANSWER SECTION

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

Christopher Charles Gallagher
JPMorgan Securities Plc

Q

Good morning.

Alain Dehaze
Chief Executive Officer

A

Morning, Chris.

Christopher Charles Gallagher
JPMorgan Securities Plc

Q

Good morning. Two from me. The first around IT and corporate costs. So the corporate costs didn't decline significantly quarter-on-quarter, but Japan saw a €4 million benefit. I imagine there's [indiscernible] (18:00) IT. Could you talk about how you see the IT costs evolving through the year and how well it looks for the corporate costs? The second question then is just around the synergies from Penna, how are you doing in getting those? Do you still think it would be, give or take, €4 million? And then, finally, just your view on M&A and your pipeline.

Hans Ploos van Amstel
Chief Financial Officer

A

Yeah. Chris, let's start with the IT, you saw, indeed, in Japan – that's because we're not continuing with the old strategy benefit. You saw a little bit of mix change between corporate and the countries on the IT costs. What we saw in the first half is that we saw around half of €20 million additional IT costs and those are reflected in the corporate line. So, that's where you saw the increase.

So, you saw in the first half that our IT costs, first in Q1 on the old strategy, in Q2, we had some investments behind the new strategy. If you look at the outlook for the year, we will continue to give that additional €20 million, which gives 50/50 between the first and the second half, and that will be deployed behind the new strategy. On the CapEx line, we will spend €25 million less than last year because we will have less IT capital expenditure. So the saving will flow through in the CapEx, but the OpEx line, in line with that we discussed. And on the Penna acquisition, we're on track on the integration and the savings.

Alain Dehaze
Chief Executive Officer

A

And our combined – indeed, your second and third question M&A and Penna, like Hans was mentioning, we are very pleased with the acquisition of Penna which has been completed during Q2, and which is also perfectly in line with the strategy we mentioned at the beginning of this year to focus our M&A activity on Professional Staffing and Solutions. And thanks with that, we have strengthened our global position in the Career Transition and are market leader in all the markets. With Penna, it's combined Career Transition or Placement and Talent development. It's really on track, so we are very pleased with that. Now, we will continue to pursue all M&A strategy, which is really a kind of buy and build acquisitions where we can advance our strategic priorities and strategic development. But you can understand that I cannot be too transparent on this field for competitive reasons, and also regulation reasons.

Christopher Charles Gallagher
JPMorgan Securities Plc

Q

Okay. That's great. Thanks, gentlemen.

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

Alain-Sebastian Oberhuber
MainFirst Schweiz AG

Q

Good morning, gentlemen. I'm Alain Oberhuber from MainFirst. I have three questions. The first is regarding the better organic growth in Professional Staffing of 5% versus General Staffing of just 4%. I always felt that we should see a positive mix effect on gross margins, i.e., higher margins in Professional Staffing will also result in higher gross margins if we see higher growth there. Why didn't we see that? And could we see that in the second half?

The second question is regarding North America. There's a slower growth in General Staffing, IT and Technical Engineering, is that an inflection point? Should we go for lower growth throughout H2 for that sector in North America? And the last question is regarding net working capital. You showed very good cash flows in particular also with deferred DSO reduction of one day. What could we expect for the full year?

Alain Dehaze
Chief Executive Officer

A

I will start with North America and then Hans will give more color on your question regarding the organic growth, Professional Staffing and the CapEx point. Regarding North America, indeed, we had a softened Q2. Let's not forget that we are growing since many years, five years in a row in the U.S. And in the U.S., we have a kind of mixed bag. We are still performing very well in Professional Staffing, retail-driven business. You have heard the figures. Medical & Science was 22%, Finance & Legal was 10%, so it remains very strong. Also the Perm activities, we are still at plus 5%, which is a very good sign. And yes, in the General Staffing, we had a softening both in Industrial and Office. But what we see in the U.S. is a continuation of this situation. That's what we have stated also in our outlook regarding July and the beginning of August. So, that's what we see.

Hans Ploos van Amstel
Chief Financial Officer

A

If we turn to the question on the mix between Professional and General Staffing, we are pleased with the progress indeed we're making also in Professional Staffing. We continue to lead in the U.S., we're making strong growth in Japan and, indeed, with our strategy and our focus on Professional is driving it. For a mix impact, it's not yet having a material impact on the margin differential. So, that is still – its good progress but we're also making growth in General Staffing. So, it's too early to say that it has, what I would say an important impact on the margin, but we're pleased with the progress on both. That's I think important to mention. The Perm business was also up 9%.

If we zoom in a little bit on North America, it's fair to conclude that we had a little bit of softening into the quarter, which was in line with market and what you have seen from some of our peers. As I said, was very pleased with the progress we're making in Professional Staffing vis-à-vis the market that continues to be driven by strong results in Medical & Science and Finance & Legal.

If you look in General Staffing, we saw some softness that was predominantly in the Industrial sector, and we had last year if you look at the same quarter still double-digit growth. So, the comparison basis is clear. What impacted the margin a little bit in the U.S. is that we had hoped for the growth to continue. We saw some softening and we're adjusting our operating leverage and cost disciplines, but that obviously has a quarter lag that impacted the margin a little bit. And DSO the cash flow, we see continued strong progress on cash flow that remains a key focus area. The DSO is down one day, and that's from a cash point of view, has a relative impact and will continue to drive the DSO discipline in the second half.

Alain-Sebastian Oberhuber
MainFirst Schweiz AG

Q

Thank you very much.

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

Hans Pluijgers
Kepler Cheuvreux SA (Netherlands)

Q

Yes. Good morning, gentlemen. A few questions from my side. First, a follow-up on the U.S. I understand what you're saying with the combined General Staffing and the Professional Staffing. But could you a little bit discuss the trends by these key segments within Professional Staffing, where, let's say – where you see, let's say, the trend going through the quarter? And also, with respect to Industrial and Office, is there any, let's say, difference in trends? Is one declining more or improving slightly better than the other? So, could you a little bit discuss the trend through the quarter? And furthermore, also, on the U.S., how do you see the average contract duration developing? Is that coming short, or could you give some feeling on that?

Then going to Germany, you're saying June is slightly better. Are you again in positive territory there already? And also, manufacturing, what part of German sales is coming from the manufacturing side? And then, to precisely [indiscernible] (26:54) understand your statement on France, you said volumes improved slightly in France. Do you mean that the growth in volumes improved or do you wish to say that meaning that [ph] your deposits (27:06) were slightly up year-on-year in July? And my last question on the BPO, you're already indicating double-digit growth in MSP, but could you give some feeling how the other segments was in that? [ph] So you (27:20) mentioned RPO are developing, and what main trends you are expecting?

Alain Dehaze
Chief Executive Officer

A

Good. Let's start with the U.S. and your question regarding the trends. What we see, we see single-digit growth in Automotive and Technology. We see stable activity in the Healthcare and also in the Manufacturing sectors. We see also still Oil and Gas segment, yeah, in decrease, but down single-digit. Not only the Oil and Gas, but also the Consumer Goods. And where we see a double-digit decline is further in Financial Services. So, that's what we see. I must say we are, for what [indiscernible] (28:20) U.S. concern, you will see also that in the second half of the year, we had some good commercial activity and commercial results. And we won also some good customers, good contracts.

Regarding Germany, what we have had is – you know that we are quite dependent from automotive, it's 30% of our business. And at the end of last year, we had some major hiring of [indiscernible] (28:56) customers. And this has caused us some growth. And let's say, months after months, we are starting again to increase our temporary staffing pool. And that's why you see also the positive development in the month of July, but also in the months to come in Germany.

Regarding France, yes, the volumes improved June, especially after the difficult month of May. Remember in France, there were a lot of strikes, also extremely bad weather conditions and it costs us really top line. But we have seen the volumes coming back in June and also continuing in July and since the beginning of August.

For sure, you know France and a lot of Southern European countries, August is the month of the holidays. And in our business, September is critical to see how the year-end will develop, especially this [ph] week 37 (30:15), we all know. With the knowledge of today, the trend is continuing, the volumes are developing well. The only point will be – okay, we'll get much more visibility in September regarding the end of the year.

And for the last question, I will give it now the floor to Hans to answer your point regarding RPO and BPO. Yeah.

Hans Ploos van Amstel A
Chief Financial Officer

Quickly to summarize Germany, we see a continuation of their positive stability. And as Alain pointed out, the automotive, there are always some changes, but positive stability is there. Contract duration, we don't really see a material change, so that's not any change there. If you look at MSP, we had double-digit growth. RPO and VMS continue to deliver single-digit growth and we have [ph] all (31:12) LHH. Our solution business has a very good quarter into the U.S. still because of the environment in France, we saw softness in France, but we're also pleased with the results of LHH.

Hans Pluijgers Q
Kepler Cheuvreux SA (Netherlands)

Okay. Coming back on France, so you mean that, let's say, the volumes in July are coming back compared to May?

Alain Dehaze A
Chief Executive Officer

Already in June.

Hans Ploos van Amstel A
Chief Financial Officer

I said...

Hans Pluijgers Q
Kepler Cheuvreux SA (Netherlands)

[ph] Obviously, well, yeah (31:39)...

Alain Dehaze A
Chief Executive Officer

Already in June.

Hans Pluijgers Q
Kepler Cheuvreux SA (Netherlands)

...but, I mean, looking at year-on-year, you're still seeing also the growth continuing in line what we've seen in Q2. Is that how I have to read the number for July?

Alain Dehaze
Chief Executive Officer

A

Absolutely.

Hans Pluijgers
Kepler Cheuvreux SA (Netherlands)

Q

Okay. Thanks.

Operator: The next question is from Rory McKenzie from UBS. Please go ahead.

Rory E. McKenzie
UBS Ltd. (Broker)

Q

Thanks. Yeah. It's Rory here. Just two, please. Firstly, looking on the outlook in H2 on growth, I know your comps get tougher through the year. So, if the sequential trends running the same, would you expect the reported organic growth to slow? And then secondly, on the gross margin on the temp part of the business, you said how trading days had a positive benefit in the quarter. Now, into H2, [ph] clearly (32:29) that that shouldn't recur, so should we now expect the temp gross margin to come under pressure in the second half of the year? Just those two, please.

Hans Ploos van Amstel
Chief Financial Officer

A

Yeah. Let's start. What we see in our sequential growth analysis that we see a continuation of the growth. And if we look at the exit rates data and if we look at our business, we see that we have a continuation of that growth. If we look at what happened last year, right, if we look and take a step back into first half, we had a flat gross margin. And for the second half, if you look at the consensus, you assume approximately a 10-basis point decline. And this is consistent with the trend you're seeing if you take into account that the second half of last year, we had two favorable benefits. One, the German calendar day effect; two, the France [indiscernible] (33:34) release. So I think, if you continue with that gross margin and you [indiscernible] (33:40) that appropriately reflects what we're seeing.

Rory E. McKenzie
UBS Ltd. (Broker)

Q

Okay. So, you're not worried about the weakness in the U.S. leading to further gross margin pressure in the business?

Hans Ploos van Amstel
Chief Financial Officer

A

If we see with the diversification we continue to make in Professional Staffing and declines since we're making [indiscernible] (33:58) what happened in the quarter as we saw a little bit lower growth which impacted that operating leverage and we're correcting for that at the start of Q3.

Rory E. McKenzie
UBS Ltd. (Broker)

Q

But specifically in the temp business, there's no gross margin incremental pressure there, that's the same rough trends?

Hans Ploos van Amstel
Chief Financial Officer

A

What we see in the margin is we delivered a 5.8% margin, which is a strong margin. But that was impacted by the operating deleverage because the growth was a little lower which we're correcting for.

Rory E. McKenzie
UBS Ltd. (Broker)

Q

Okay. That's clear. Thank you.

Operator: [Operator Instruction] The next question comes from Mr. Anvesh Agrawal from Morgan Stanley. Please go ahead.

Anvesh Agrawal
Morgan Stanley & Co. International Plc

Q

Hi. Good morning. I have two, if I may. The first one is on the cost savings that you're targeting in North America through head count reduction. What are the costs associated with that in Q3 and what's the kind of payback you expect on that? And second is on Netherland. Have you seen the pricing pressure being intensified there? And in terms of growth, how much you had to give up because of maintaining the pricing discipline there? Thank you.

Alain Dehaze
Chief Executive Officer

A

I will start with the Netherland and then Hans will give more color of what we have done in the cost savings. Netherlands, yes, that's something we already discussed in the previous quarter. Somehow, we warned you that we would lose some customers because of our pricing discipline. And yes, unfortunately, this has materialized now in the second quarter and it will continue in the Q3. We are working hard to counterbalance these major losses with profitable customers, mainly smaller customers. But I confirm that we have stick to our pricing discipline in the Netherlands and as a consequences, we lost some major ones.

Anvesh Agrawal
Morgan Stanley & Co. International Plc

Q

So just to follow-up on that before you jump on to the North American one, have you seen the pressures being intensified or are just in line with what you had in Q2? And if you need to put in a number on how much of growth you had to give up because of the pricing discipline, what would be that roughly?

Alain Dehaze
Chief Executive Officer

A

We didn't see any further price pressure in Q2. Remember, we announced that in Q1, so we didn't see any increase in Q2. To give a little bit of guidance regarding the development of our Benelux figures, we are outperforming in Belgium, in Luxemburg, but in the Netherlands, we had a slightly negative reduced development.

Anvesh Agrawal
Morgan Stanley & Co. International Plc

Q

Okay. Thank you. And on North America, please?

Alain Dehaze
Chief Executive Officer

A

Yeah.

Hans Ploos van Amstel
Chief Financial Officer

A

Yeah. On the U.S., obviously, it's a very flexible labor market, so it is always a fast payback on adjusting the head count to the [indiscernible] (37:17) reality and from a restructuring that would have a low single-digit impact, it's [ph] not a (37:24) material thing. But we're getting to pay back in the year.

Alain Dehaze
Chief Executive Officer

A

To give you more color on this, we have laid off around 250 people at the beginning of Q3.

Anvesh Agrawal
Morgan Stanley & Co. International Plc

Q

Okay. Thank you.

Operator: The next question is from Mr. [indiscernible] (37:54). Please go ahead.

Q

Thank you. Good morning to everybody.

Alain Dehaze
Chief Executive Officer

A

Good morning.

Q

My question relates to the balance sheet. I noticed that you show a goodwill of a little bit more than €3 billion and have a total shareholder equity that is just slightly larger than the goodwill. And I recall that about a year ago, we had a major write-off of goodwill in Germany. So the question is, do you have more details on the goodwill and how is the valuation of that goodwill? Any change that we might see a major correction in the near future?

Hans Ploos van Amstel
Chief Financial Officer

A

We are very – indeed, in Q3 of last year, we took a goodwill impairment charge mainly related to the German business. We are extremely pleased with the German results because if you look at our German results, they continue to confirm a positive stability and also the margin, which over the past years, has been in decline. If you correct for the impact of today's, it's giving us the stable margin. We see a stable business and we see already some pockets of growth on the new strategy. We're going with small and medium customers. So we're comfortable on the results of the German business and with that, obviously, on the goodwill.

Q

Thank you. The question is related actually not to Germany. Germany was just the example of last year. The question is any danger of need to revalue goodwill on any other region of the world or any specific type of service, for example, [indiscernible] (39:43), et cetera?

Hans Ploos van Amstel
Chief Financial Officer

A

No. Sorry that I didn't fully answer your question, but we obviously did a whole impairment test on all and we're comfortable on our goodwill.

Q

Okay. Thank you.

Alain Dehaze
Chief Executive Officer

A

You're welcome.

Operator: [Operator Instructions] Gentlemen, there are no more questions at this time. Sorry, we have a last second registrations from Mr. Hans Pluijgers. Please go ahead.

Hans Pluijgers
Kepler Cheuvreux SA (Netherlands)

Q

Yeah. Sorry. One follow-up question on Germany. You said you've seen an improvement in the manufacturing business in Germany. Let's say, is that – first of all, is that a little bit across the board [indiscernible] (40:40)? Or are there some more specific contract gains? And on top of that, what's the manufacturing as total percent of sales in Germany, what's your feeling there?

Hans Ploos van Amstel
Chief Financial Officer

A

If you look at the manufacturing sector in Germany that's around 10%. And there, we saw, across the sectors that performance. We have a good – outside the automotive, our business is actually quite nicely diversified in Germany because of multiple sectors.

Hans Pluijgers
Kepler Cheuvreux SA (Netherlands)

Q

Okay. Thanks.

Alain Dehaze
Chief Executive Officer

Good. So I would – if there are no more questions, I would say thank you for your interest in our solid results. And we look forward to meeting with you over the coming days and weeks during the road show and if not, to hearing you again with our Q3 results on November 8. I wish you an excellent day.

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