08-Aug-2019

Adecco Group AG (ADEN.CH)

Q2 2019 Earnings Call

CORPORATE PARTICIPANTS

Nicholas de la Grense
Head of Investor Relations, Adecco Group AG

Alain Dehaze
Chief Executive Officer, Adecco Group AG

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

OTHER PARTICIPANTS

Bilal Aziz
Analyst, UBS Ltd.

Paul Sullivan
Analyst, Barclays Capital Securities Ltd.

Alain-Sebastian Oberhuber
Analyst, MainFirst Schweiz AG

Tom Sykes
Analyst, Deutsche Bank AG

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

Anvesh Agrawal
Analyst, Morgan Stanley & Co. International Plc

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

George Gregory
Analyst, Exane Ltd.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Q2 Results 2019 Analysts Call and Webcast. I'm Alessandro, the Chorus Call operator. I would now like to remind you that all participants will be in listen-only mode, and the conference is being recorded. The presentation will be followed by a Q&A session. [Operator Instructions]

At this time, it's my pleasure to hand over to Mr. Nicholas de la Grense, Head of Investor Relations, accompanied by Mr. Alain Dehaze, CEO; and Mr. Hans Ploos van Amstel, CFO of the Adecco Group. Please go ahead, gentlemen.

Nicholas de la Grense
Head of Investor Relations, Adecco Group AG

Good morning and welcome to Adecco Group's Q2 2019 results conference call. As usual, today, I'm joined by Alain Dehaze, Group CEO; and Hans Ploos van Amstel, Group CFO.

Before we begin, please review the disclaimer regarding forward-looking statements on page 2. Looking at today's agenda, first, Alain will briefly review the highlights of the quarter. Hans will then provide some additional color on our financial performance, after which Alain will describe some of the progress being made on our transformation and innovation agendas. We'll then open the lines for Q&A. And with that, I hand over to Alain.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

Thank you, Nick, and good morning, ladies and gentlemen. Welcome to our second quarter results investor call. And I will start on slide 5 with the key highlight. The second quarter demonstrated strong execution of our strategy, driving a structural improvement in performance in an uncertain environment. Indeed, gross margin increased by 70 basis points and by 40 basis points organically. This shows that the new digital tools and solutions are appreciated by our clients and that our focus on value-based pricing is having a positive impact, also helped by tenant scarcity. What is more, despite revenues declining by 3% trading days adjusted in the second quarter, we kept our EBITDA margin excluding one-offs stable. That represent a 20 basis point underlying improvement after considering the impact of the bank holiday timing, investments into new ventures, and the fact that Germany still has an unfavorable impact. Excluding these items, EBITDA margin was up 20 basis points, which is the fourth consecutive quarter of improvement.

The GrowTogether program is a key driver of our improved productivity and our structural margin improvement. During the second quarter, we made further progress in expanding various initiatives and I will discuss some examples later. Once more, I can confirm we are on track to deliver the additional €70 million savings that we targeted in 2019.

On our Innovate agenda, we continue to make good progress. We have talked before about how the acquisition of General Assembly last year would strengthen the group ecosystem, adding value to all the brands. During the second quarter, we saw that in action with the launch of the Modis Academy in the United States. And we also saw the first wins from collaboration with Lee Hecht Harrison, the global leader in career transition. So, you can really see the Perform, Transform and Innovate strategy is delivering the results in Q2 and we expect that to continue in the coming quarters. With that, I would like to thank all of our colleagues worldwide for their commitment and hard work. And now I hand over to Hans.

Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

Thanks, Alain. We will now discuss the Q2 financial performance in more detail starting with revenue. The revenue was down 3% on trading days suggested basis. This is slightly below the minus 2% we reported in the first quarter and reflects the slower economic growth. Europe was minus 5% with lower growth in most European countries consistent with more difficult market conditions. Remember that in Q2 of last year, we still had very strong growth in Europe at plus 6%, so the slowdown comes after the period of strong growth last year. It's clear that there has been a further slowdown in automotive and the manufacturing sectors of the economy.

In North America, we saw a slight slowdown to minus 4%. This is partly driven by the markets and partly due to the fact that we still have some challenges in our Professional business. In Japan, we saw acceleration of growth and in the rest of the world the growth remained positive.

Looking at the country revenue results in more detail on slide 8, France's growth slowed versus the first quarter and was slightly below the market. Remember that in Q2 of last year, we were growing a solid 4 percentage points ahead of the market. While our revenue was slightly down, we actually grew gross profit year-over-year. This confirms that we're improving the quality of the mix and we continue to focus on higher value services.

In North America and UK General Staffing (sic) [North America, UK & Ireland General Staffing] (00:05:56), revenues were slightly down. In the UK, that's very much Brexit related. In North America, the market softened a little and we also saw a few of our large customers reducing their volumes. This was partly offset by good growth in permanent recruiting. In North America and UK Professional Staffing (sic) [North America, UK & Ireland Professional Staffing] (00:06:20) revenue was mixed. Continued strong growth in our Soliant healthcare business and in Finance and office. The Legal business was significantly lower due to a few large contracts that ended in Q1 which we talked about before. This will continue to be a drag for the balance of the year.

Our U.S. IT business continued to decline, but we're making good progress in building the new capabilities with the launch of our offshore recruiting center during Q2 and the Modis Academy leveraging General Assembly. In the UK, we saw modest growth overall while our special recruiting businesses were soft, again the Brexit uncertainty is not helping the UK. In Germany, Austria and Switzerland, the decline was broadly in line with the markets. Germany continues to be a very tough market impacted by a slowdown in the automotive sector and by the regulatory changes that were introduced in Q4 of last year.

We made good operational progress in the quarter. The retail business is stabilizing and we saw a positive gross margin development. We have become much more proactive in passing through the increased costs related to the regulatory changes. On the large client side, we see [indiscernible] (00:07:51) pipeline growing which is promising.

In Italy, revenue growth was slightly below Q1. Remember also that we were growing at 11% in Q2 of last year. We're seeing strong growth in Japan. We continue to build the market share [indiscernible] (00:08:12) Professional Staffing business continues to perform very strongly which is supported by its different shades of offering. Iberia grew 4% reversing the trend of prior quarters. Career Transition revenues remained slightly negative. We're not seeing any pick up in our placement activity. We're pleased with the continued growth in Talent Development.

Turning to the gross margin, reported gross margin increased by 70 basis points. M&A had a positive 20 basis points impact driven by General Assembly, which is a high value business that strengthens our customer offering. Currency had a positive 10 basis point impact. That means that the organic gross margin was up 40 basis points. Permanent recruiting had a positive 10 basis point impact. Career transition and over activity had a neutral impact. This leaves a 30 basis points improvement in the temp gross margin.

Within the 30 basis point increase in the temp gross margin, there was a 10 basis points negative impact from unfavorable timings of bank holidays mainly in Germany. That leaves a 40 basis points positive impact from pricing and mix confirming that our actions to strengthen the temp gross margin are paying off. We continue to focus on value-based pricing, and this is supported by our new tools.

Let's now look at the EBITDA margin. Our EBITDA margin was flat year-on-year. The investments in the New Ventures have a negative 5 basis-point impact. Germany impacts the group by 5 basis points negatively. The bank holiday impact is another 10 basis-point negative. If we take those factors into account, the underlying improvement in the EBITDA margin was 20 basis points. That is slightly below the previous quarter but a strong result in the declining revenue environment. It confirms that GrowTogether continues to fuel the margin and the work on value pricing and mix is paying off.

Looking at the profitability by country on slide 11, we will now provide some further perspective for the key markets. France margin strengthened further by 30 basis points to 6.2%. The improvement was driven by a combination of our pricing actions, diversifying the business mix and the improvements from the GrowTogether initiative.

The North America, UK & Ireland General Staffing business was flat year-over-year in margin. There were some negative discrete items in the quarter which disguised an otherwise good development in both gross margin and productivity.

In North America & UK Professional Staffing (sic) [North America, UK & Ireland Professional Staffing] (00:11:20), the margin was down 60 basis points. We continue to invest in Vettery and we also had some investments in building up the offshore delivery capabilities for the U.S. Professional Staffing business as well as negative operating leverage.

The EBITDA margin in Germany, Austria and Switzerland (sic) [Germany, Austria, Switzerland] (00:11:41) was down 220 basis points year-on-year. About half of that is due to the unfavorable bank holidays. The rest is negative operating leverage and higher bench cost in Germany. Note that we took further actions in the quarter to streamline the organization in Germany and to drive the competitiveness. We continued to strengthen the frontend capabilities while we streamlined the management layers and are driving efficiencies in the middle and back office.

For Career Transition & Talent Development, the margin decline is driven by the investments in General Assembly, which was only in the base for one month in Q2 of last year. The underlying LHH margin remained strong.

Let's look at SG&A in more detail on slide 12. In an environment where sales are declining, it's important that we adapt our cost base to offset. SG&A was down 1% organically driven by a 2% reduction in the number of FTEs. The SG&A reduction matches the decline in gross profit which was also minus 1%. The FTE productivity was slightly up in the quarter while sales declined. It confirms that the GrowTogether initiatives continue to drive the margin. This, while we also continue to invest in new IT technology, while we're driving the GrowTogether benefits to the bottom line.

Turning to cash flow and balance sheet on slide 13. Cash flow was strong in the quarter. Note that, as we indicated before, the CICE change this year had a negative impact on cash flow in the quarter. The net impact versus Q2 of 2018 was around €170 million. For the full year, the CICE change is roughly neutral because we got a benefit in Q2 and, again, we'll get them in Q3 and Q4. Days sales outstanding are down 1 day at 52 days. Net debt to EBITDA is 1.2 times at the end of Q2. Q2 is always seasonally the highest because we pay the dividend. Compared to last year, net debt to EBITDA improved by 0.2 turns confirming the strength of the cash flow and balance sheet.

As we stated at Q1, the lease accounting changes impact us differently to some of the European peers because we report under U.S. GAAP. With U.S. GAAP, there is no impact on the income statement from the new lease accounting standard nor does it impact net debt or the leverage ratio. It also means we do not see any change to our EBITDA margin from the lease accounting changes unlike IFRS reporters who do get the benefit.

Coming to the outlook, revenues in June were down 3% trading day adjusted in line with the Q2 results. In July, volumes indicate the continuation of the June trends. The negative impact on cash conversion in Q2 2019 from the replacement of CICE in France will reverse in the second half of 2019 and will be broadly neutral for the full year. We're on track to deliver the targeted incremental €70 million savings on GrowTogether in 2019.

And with this, I hand back to Alain for an update on the transformation and innovation.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, Hans, and indeed, let's start with transformation and more specifically our GrowTogether program. GrowTogether is about strengthening the value proposition to drive sustained, profitable growth. It is about increasing productivity while also improving the quality of service we provide to our candidates and clients.

We talked last quarter about the three pillars on which GrowTogether is built. The first one is Service Excellence, putting our customers at the heart of all our activities. The second pillar is re-engineering or work processes across all branches and shared service centers through the PERFORM methods to reduce inefficiency and provide a strong foundation on which to deploy new technology. And the third pillar is about leveraging technology. Leveraging technology so that all colleagues can focus on what they are passionate about, helping more candidates to find jobs and develop their career.

In these three pillars, we have delivered several initiatives over the course of the last quarter. Let's take a look at some examples of the progress from the second quarter. We have a net candidate app in France called the Adecco & Moi, Adecco & Me, and this candidate app has been a great success. We now have more than 200,000 unique monthly active users. It is the eighth most popular business app in France and we keep upgrading the functionality so that associates and candidates can self-service for a greater number of activities. And this improved the experience of dealing with Adecco and it reduced the number of administrative task that our consultants in all branches have to manage. It is really a clear win-win.

Building on the success of this candidate app in France, we have begun the rollout of the global app, and we aim to gradually roll it out across the group including to some of the all the largest countries later this year.

On process optimization, we continue to train our teams in the platform methodology which applies a lean manufacturing concept to all business. After the UK, the U.S., Netherlands and Japan, we further roll it out in Italy, Spain and Northern Europe. Finally, on Technology, we launched our advanced planning and scheduling tool in North America, Italy and Belgium focused on our Onsite business. And the tool significantly speeds up scheduling, freeing up more than 20% of time for our Onsite consultants. And it also improves order fill rate and candidate redeployment. This resulted improved clients and candidate satisfaction and clearly also improved productivity.

Now, a quick review of the progress on the final part of our strategic agenda, Innovate. When we talk about innovation, one of the key opportunities for the group is to leverage the strength [ph] of our (00:19:11) various brands to create differentiated solutions for clients. When we acquired General Assembly last year, we identified two clear opportunities to generate synergies, with Modis and with Lee Hecht Harrison. And I'm pleased to say that we made progress on both sides during the second quarter.

Modis launched the Modis Academy in the U.S. with collaboration with General Assembly that offers talented candidates sponsorship to train in software engineering before being placed with Modis clients. It is a model that is similar to what we already do in Japan. It takes the recruiting model to the next level because we helped to build the pipeline of talent in areas of skill scarcity, and this is also a trend that we think will become increasingly important and where we have a lead, thanks to General Assembly.

A second example of the ecosystem at work is the integration of GA business model with Lee Hecht Harrison in the U.S. Since the first quarter, LHH has added online digital assessment and learning tools from GA into its active placement platform and integrated reskilling into its client value standard proposition. This enables us place candidates to be better prepared to find a new job faster and it strengthens the traditional Career Transition offering, shifting the conversation to one about workforce transformation and really differentiating LHH from competitors. And that has paid off in Q2 with the first related business win and we expect it to be the first of many.

Coming now to the concluding messages, the second quarter was a quarter of strong execution of our strategy despite an uncertain economic environment. We achieved a fourth quarter of underlying improvement in EBITDA margin, supported by GrowTogether and progress we are making on improving our mix and with our pricing strategy. We continue to invest in our digital transformation and in our innovative New Ventures and we are strengthening the group ecosystem, driving synergies from the combined strength of all brands as a source of real competitive advantage.

And with this, I would kindly ask the operator to open the lines for the questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instruction] The first question comes from Bilal Aziz with UBS. Please go ahead.

Bilal Aziz
Analyst, UBS Ltd.

Q

Hey. Good morning, everyone. Three questions from my side, please. On gross margins, can you perhaps indicate for 3Q how you expect the bridge to look like, particularly with your expectation for the sustainability of the temp margin? Secondly, I appreciate you do not give revenues on a monthly basis, but can you perhaps remind us how the shape of the third quarter looked like last year by month, giving us a sense of how and when the comparisons [indiscernible] (00:22:56) somewhat? And lastly, in France, some of the proposed regulatory changes are related to short-term contracts. I know it's very early days, but how do you think that may impact your business across the seven sectors? Thank you.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Yes. Thank you for your questions, and I will start immediately with your point on France and the so-called bonus-malus framework. First of all, we see that there are multiple elements, some positive and some negative, but let me first explain what is the bonus-malus about. First, it is a framework that will apply to companies from January 2021. This is where it will start to influence, I would say, the P&L of the companies. And this bonus-malus framework will be based on a standard social insurance rate of 4%. But depending on how you are consuming this, I would say, social insurance for unemployment and how many people you are sending back to the unemployment agency, your standard rates can vary from 3% to 5%, again, the standard rate being the 4%.

So what does it mean? It means that starting from January 2020, which will be the reference year, companies in seven sectors, because it is limited to seven sectors, will really pay attention on the way they are consuming temporary staffing, but even more the short-term contract of duration, I will come back in a minute to that, because especially these two type of contract will have influence on your future rate.

So, for the temporary staffing, it means that if they send back – and we send back the temporary staff to the unemployment agency, it will have influence on the rate you will pay or [ph] jobs in (00:25:10) even more we will have to permanently redeploy our temps. And as we are, I would say, the largest player in France, we see there an opportunity. We see even more opportunity with the CDD. And as you know, the CDD contract is four times bigger than the temporary staff contract and especially the so-called CDD [ph] desires (00:25:39), which is the very short-term contract of definite duration. And then this type of contract starting from the 1 of January, 2021 will get an additional fee of €10 per contract and you can imagine, for companies doing today a lot of three hours contract, what this €10 will mean as cost increase.

So, to summarize, there are some positive elements and some negative elements. But for us, it is clearly an opportunity by redeploying our temps also by continuing to push the so-called CDITT because this contract will not be impacted by the new regulation and for sure substitute the CDD by the CDITT or the temporary staff that we will redeploy.\

This was on your third question and I leave now the floor to Hans for your first and second question.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Yeah. So, to give you a little bit more guidance for the Q3 gross margin, next quarter we don't have the bank holiday impact, so that will be neutral. M&A will also not have an impact anymore because it's fully into the numbers. I would expect foreign exchange to be around having that same 10 basis points impact. Then we need to consider all the dynamics of the permanent recruiting Career Transition and the temp pricing mix. I think perm continues to be slightly positive and the temp price and mix should also be a positive, maybe a little lower because the [indiscernible] (00:27:26) comparing to the better periods and altogether gross margins should be up around 40 basis points year-on-year in Q3.

If your second question is related to the monthly phasing of the sales, the slowdown happens in the late summer, so that is a little bit giving you the answer, but not probably giving you the answer because if you look how we saw the July trends in line with June, the slowdown really last time happened after we had the earnings call in the late summer and going into September, which makes the comparison base better in the second half. But that uncertainty really started to hit us after the summer period – in the late summer and going into September.

Bilal Aziz
Analyst, UBS Ltd.

Q

Very clear. Thank you very much.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

You're welcome.

Operator: The next question comes from Paul Sullivan with Barclays. Please go ahead.

Paul Sullivan
Analyst, Barclays Capital Securities Ltd.

Q

Yeah. Morning, everybody. Firstly, could you perhaps elaborate a little bit more on the restructuring and plans in Germany through the second half in light of the structural challenges there? And how do you think you'll contain the losses going through the second half? And what does that mean for restructuring charges more broadly across that group over the next six months? That's the first question. Secondly, could you give us any more color on the revenue contribution or performance from the digital ventures including General Assembly? And I think that's it for now. That's fine. Thank you.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Okay. Hans here, Paul. I'll start with talking about Germany. We [ph] had a relatively high (00:29:24) a large reorganization cost into the quarter related to Germany. What we're doing in Germany is a couple of points. One, with that revenue decline which you saw in the quarter, we have to adjust the cost base to manage the margins, so there was one part in adjustment, but more important than that, we are strengthening the frontend of the business. We have optimized the management layer structure in Germany, which makes also the organization more agile and effective, and we're optimizing supported by some of the GrowTogether tools, the productivity in the back and the middle office.

So you talked about the loss. We have to take into account that we have the trading days. If you look over the first half together because we have the plus and the minus, we're still in the small plus, but the actions we're taking are structurally helping the productivity in the second half. And we see it's early because the German market is challenging at the moment, not only because of automotive, because also the new regulation comes at a time when the candidate market is scarce, but we see in the retail network first improvements and the sales pipeline is getting stronger. So, yes, a lot of restructuring, we have to adjust the cost base, but some of it was also structurally driving the productivity in the second half and we see some, I would say, early indications of improvements and we're pleased, but the trading environment in Germany is obviously challenging.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Then on your questions regarding the ventures and starting with General Assembly, you remember we had a good first quarter, a growth of around 20%. The revenue growth in Q2 was a little bit lower, mid-single-digits, especially because the comparison base was impacted by a B2B contract mobilization that we had in the second quarter 2018. But when we look, and we looked at the booking and the booking growth is strong with a very good momentum in the so-called B2C because we have B2B and B2C. B2C business is also very good. So we expect the growth in the second half of this year to be back above [ph] a bit (00:31:57) above 20% organically.

And again, I was mentioning in my presentation, we are very pleased with the synergies with the rest of the group. I gave you two examples, referrals with LHH and Modis and the tools of GA under active placement platform, but we are also playing now the synergy with Vettery, for example, in New York, all the GA graduates are now generating their profile on the Vettery platform. We have launched also in Italy a three one-week full-time course in Milan. So, the synergies are really in development.

Now, regarding the older ventures, we have Vettery, and in Vettery we have triple-digit growth in the first half and a strong renewals of the subscription. So, we are very pleased with that. Adia, the two major points are Switzerland. In Switzerland, we have a strong growth above 50% and further good progress also in the U.S. as we are building this zero-touch solution growth above 50%. Not only we are growing with Adia, but we are taking the learning we are doing with Adia into what we call the legacy. One of the example is the candidate app we were mentioning. We are taking this candidate – the app we have developed for Adia, we are putting that in our core business based on the experience we have done in France, the successful experience.

That I would say the three main ventures we have. I would say in a nutshell or in summary, we are investing around 5% of our EBITA into New Ventures, which we are convinced is absolutely right thing to do and important that as a company we can perform on the today's business but also at the same time invest for the future.

Paul Sullivan
Analyst, Barclays Capital Securities Ltd.
Q

Great. And can I just – I mean, following up from that, when you look at next year and the big step-up in cost savings that were factored into the original plan, how confident are you on the delivery of those as we approach 2020? Thank you.

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

Yeah. Two things for you. I think we have delivered two quarters of [indiscernible] (00:34:35) margin improvement fueled by the GrowTogether initiative and the first half is at 25 bps. There's still a lot of investment in that because we also continue to invest in IP while we're investing fully into the ventures. You ask some questions on Germany, that's still a drag and the margin should improve. So, we see going forward that I think we fundamentally with the Perform, Transform, Innovate agenda have a good strategy to strengthen the margin structurally and on GrowTogether we are delivering all our objectives this year, like we did last year. Our objective is to also do that for next year. So, we will do that.

Now, the disclaimer, so my first message is we have a clear strategy to structurally strengthen our margin structure while we're investing for the future. And I think that is the positive matter. If we look at next year specifically, I have no crystal ball on the economy, neither do I have crystal balls on the quarters and the uncertainty there. So [indiscernible] (00:35:42) specifics on the quarter and the year, just report quarter-by-quarter how we're delivering, but we're on the right track and we have a strategy on which we are delivering, as we speak.

Paul Sullivan
Analyst, Barclays Capital Securities Ltd.
Q

Great. Thank you very much.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

Thank you, Paul.

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

Alain-Sebastian Oberhuber
Analyst, MainFirst Schweiz AG
Q

Good morning, Alain, Hans and Nick. Alain Oberhuber, MainFirst. I have two questions. The first is again regarding Germany. Is there any risk that there could be a further impairment on intangible assets and goodwill at the current moment? And also on Germany, have you already seen the light at the end of the tunnel or not yet? The second question is North America. I mean, it looks like that there is some deceleration in the General Staffing business. Do you expect that to continue or was that just an issue because of the high base and the lower base in Q3 should help you again, that North America could grow, i.e., sequentially, did you decline in Q2 as well?

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

So, let me start with Germany. Our objective is not to do another impairment in Germany. Our objective is to structurally bring the business back to [ph] health (00:37:17) where it needs to go. We have had some unfortunate things with the integration of Adecco and Tuja, which is now behind us. I think you see now also in the PS that both the market and this implementation of the new regulation over the short term is giving us some challenges, but I'll give you – so, we are on a mission to get the business where we want it to be. There are some first lights at the end of the tunnel, the retail business is stabilizing, our sales pipeline is improving and we're bringing structural productivity in the new management of products where we delay the management teams and drove real sustained benefits in the back and middle office helped with some technology. So, there's some light.

I think on the General Staffing, you said some of it already, I think. I think General Staffing, yes, the quarterly comparison plays, but I see where the General Staffing business is in the U.S. It's hovering around stability, some branch we have quarters, which are up, [indiscernible] (00:38:28) slightly downward. I don't see that has a change in the trend line of the market where perhaps unemployment rates are very low and it's a variation around [indiscernible] (00:38:41).

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

If you look into more details, Alain, specifically on the General Staffing, we see that the decline is concentrated with a few large clients and so the results of Q2 was impacted by a more difficult base. That's clearly. So, market trends are a little bit softer in Q2, but it's in line with our major competitors. I think the good news there is the perm – the perm in General Staffing but the perm also in Professional Staffing. In perm General Staffing, we had 11% growth, which is very good, and total perm in the U.S. was 9% if we take also Professional Staffing into consideration.

Alain-Sebastian Oberhuber
Analyst, MainFirst Schweiz AG
Q

Thank you very much.

Operator: The next question comes from Tom Sykes with Deutsche Bank. Please go ahead.

Tom Sykes
Analyst, Deutsche Bank AG
Q

Yeah. Morning, everybody. Just to focus a bit more to begin with on France, please. You say – I think in your annual report you say that 25% of your gross profit in France is coming from non-traditional temporary staffing. And I just wondered if you could perhaps break down that 25% and maybe just say what the growth of that is relative to the growth of the gross profit in your traditional temping model, please. And I guess there's perm in there, but also just the growth out of things like apprenticeships and whether the bench model is improving as well in traditional – in the temporary staffing part, please? And then, I've got some others to follow on. Thanks.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

Okay. Yes, you are right when we say non-traditional temp staffing, we are including in these figures the perm recruitment. And when you see the development through the years of the perming staff, it has been substantial. What has been also substantial is the development of the [ph] CDITT (00:40:51). We are I had the pleasure to start that I think six or seven years ago. In the meantime, it is between 15% and 20% of our head count, so it's – and it is clearly accretive for us. So, that's a gain. It is we call that a non-traditional temp staffing but it is good, and apprenticeship also. I would say that, according to my knowledge, we don't breakout by type of let's say contract or activity or gross profit, but it is a clear sign that our strategy to develop high value mix service offering is paying off.

Tom Sykes
Analyst, Deutsche Bank AG

Q

Okay. Thank you. And specifically, I mean, is it possible to say how big the apprenticeships business is now for you? I think you've got 9,000 in France and about 11,000 globally, but just trying to think about how important that is to gross profit and particularly whether you've put prices up in that area, please...

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Yeah.

Tom Sykes
Analyst, Deutsche Bank AG

Q

...or got more fees from government. And indeed, do you book that in the temp gross margin?

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

What I can tell you is what we have said publicly and publicly we have taken the commitment to raise the number of apprentices managed by us to 10,000 by the end of next year. So, it was a 36-month plan. And I would say that we are really on track. We are now in the second year and we are on track to deliver this. Again, on the figure, we don't give clarity regarding the exact level of gross margin, but it is accretive and it is booked yes it is booked into gross margin of staffing.

Tom Sykes
Analyst, Deutsche Bank AG

Q

Okay. Thank you. And then just on perm, I think I mean, you're about 14% perm as a proportion of your gross profit and I know there's the offset of outplacement maybe with a lag to perm if things slow down. But how high are you prepared to let that go given what we know about the cyclicality of perm businesses when things slow down? I don't think you've ever been higher as a group. So how high are you prepared to let that go please?

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

I think there are different aspects. First of all, you'll see that in vast majority of countries, you have to split the perm coming from let's say the blue collar activities from Adecco and in a lot of cases we can embed this in our traditional activity though so should let's say a slowdown coming, I think we can absorb that with our organization and it's not a problem. And then we have the brands let's say blue collar or – white skilled collar where we have developed during the last year's this dedicated brand and there we see that our gross first of all, our gross margin is very limited. So whatever the market trends or market share is limited and there is scarcity of such a profile in a lot of countries. So I say we will time will tell but scarcity according to us is there to stay even in slowdown of some market. We see that, for example, in markets like Japan and some scarcity is there to stay and it is good for this temp Professional Staffing type activities.

Tom Sykes
Analyst, Deutsche Bank AG

Q

Okay. Thank you and I suppose sorry final quick one was just I guess related to that is Italy looks is it a new peak margin? Japan's getting back to peak margin. How important has perm been, I mean given you obviously put the perm growth rate for Italy in there but perm and business mix changes and how sustainable are those peak margins please?

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

I think what you see in those markets is that we have broad-based growth between [indiscernible] (00:45:24) diversified mix on the customer base and perm recruiting. So, it just confirms that we have a broad-based margin. It's driven that we – our business is very diversified. So, I think continuing to diversify the growth mix across the different sectors of the economy as well as between perm and temporary staffing is a good strategy.

Tom Sykes
Analyst, Deutsche Bank AG

Q

Okay. Many thanks indeed.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Thank you, Tom.

Operator: The next question comes from Suhasini Varanasi with Goldman Sachs. Please go ahead.

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

Q

Hi. Good morning. Just a couple from me, please. In Germany, obviously, we know about the auto weakness and how that's affecting the demand there. But can you tell us a little more about the trends that you're seeing are you seeing the weakness in Germany auto spreading to general industrial in Europe for one? And secondly, if we think about the medium term, as these automakers invest in hybrid and EV, new factories, how do you see the temp demand evolving in these new factories, please?

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Yeah. I will take this question, Suhasini. It is clear that when – first, if we look and focus first at Germany, we clearly see a slowdown of the auto sector which is linked to four different, I would say, reasons. The first one is the trade war. I don't know if it is the most important one, but the trade war has affected the export of cars. Also the Brexit, this is the first reason. Second reason is the emission, the new emission policy rule obliging the car manufacturer to certify every single model. And this has also caused a bottleneck at the certification institute. This is the second bottleneck. The third, and then we are coming into more the structural things what you were saying, yes, there is a migration towards electric and hybrid cars and this implies not only change of model but change also of production line. And again this has caused, let's say, a slowdown in this activity. And the fourth one is the overall economy which has slowed down in Germany.

Now, auto is not only the reason of the slowdown in Germany, also manufacturing broad based has slowed down. And we see that this manufacturing and auto slowdown has – I don't know if it is spread because a lot of companies, a lot of countries are also supplying the German car manufacturers, but the slowdown is Europe and broad based. I would say now since the second quarter with one exception being Spain.

Now, medium-term, I think we are convinced that the model – the productivity model of the future is a combination of technology, robotics, automation with flexible human resources. And so that's why we see the opportunity for our industry and for our company. Beside this, there are also new services being developed around electric chargers to be installed, to be maintained, coach around driverless car. So, we see that we are developing quite – a lot of new activities around mobility and especially e-mobility. And this is a very attractive new segment also for us.

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

Q

Okay. Thank you. That's very clear. And just one more on SG&A please. Can you – I know you've given the outlook for gross margins in Q3, but do you have an SG&A outlook as well? Will there be the seasonal slowdown as expected?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

So, to give you some color beyond the gross margin to the SG&A for Q3, a couple of points which I think are important is that we will continue to invest in our digital transformation, which includes GrowTogether and the New Ventures. GrowTogether will have a net positive impact also in the second half but we need to remember that we delivered most of the GrowTogether benefits in the second half of last year. So this year, they will be more skewed towards the first half of the year. So, we will deliver exactly on the commitments for the year. But in SG&A, there's more benefits in the first half than the second half.

The New Ventures will be a slight wreck on the margin again in Q3. And if you look and add that all up for SG&A, I think we will be up around 3%. Half of that, 1.5%, will be exchange rate related and about 1.5% organic. And organic includes now the New Ventures and General Assembly because all the M&A is in the organic numbers.

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

Q

Got it. So, 3% year-over-year, right?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Yes.

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

Q

[indiscernible] (00:51:14). Yeah, got it. Thank you.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

You're welcome.

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

Anvesh Agrawal
Analyst, Morgan Stanley & Co. International Plc

Q

Hi, good morning. I got three questions. Maybe if you can take them one by one please? The first one, if I just look at the drop of the price and mix improvement of 40 basis points to the operating profit level, now, given the underlying improvement in operating profit is only 20 basis points, can you just comment the drops of price and mix because if within that 20 basis points, you have the benefit from GrowTogether, then it means that it's not really dropping through a lot at the operating profit level? Or are there any investment that are kind of in there in the underlying improvement?

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Yeah. And your two other questions, Anvesh?

Anvesh Agrawal
Analyst, Morgan Stanley & Co. International Plc

Q

Okay. Yeah. The second one is just, you have obviously seen an improvement in the growth rate in Iberia, but just wanted to check if that's wage inflation related or have you seen a volume improvement there as well? And then, finally, I think you flagged in the presentation earlier a win that you had in the LHH and GA business combined. I'm just wondering do we need to think of any tailwinds to the growth rate from that in Q3 and Q4?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Let me start with margin. If you look in the quarter, the underlying margin was up 20 basis points. We get the benefits [ph] over them (00:52:33), but we should not forget Germany where the trading days impact in the quarter and that year-over-year [indiscernible] (00:52:45) is also a negative. So, that's why we're giving the bridge and then, the revenue was down as well. So, we didn't have operating leverage. So, if I look at our productivity in the quarter, and we have the digital inventions that have stabilized in the quarter includes continued investments – increased investment in the digital ventures includes the impact of the trading base was negative in the quarter and a combination of positive mix in the temp margin and for the different work together.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Regarding...Okay...

Anvesh Agrawal
Analyst, Morgan Stanley & Co. International Plc

Q

Sorry, before you proceed, can I just follow-up on that? If you take [indiscernible] (00:53:31) out, then the underlying improvement is 20 basis points and the price mix improvement was plus 40 basis points. So I was just wondering at what rate this is dropping through to the EBITDA level? Because in the bridge that you've shown for the operating margins, you separate out the investment, German impact, and bank holiday anyways, so?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Yeah. So, which leaves a plus 20 basis points real improvement in the margin when the sales was down. And some of that, the things are in the mix as well but the strength of the margin is there while the revenue was down.

Anvesh Agrawal
Analyst, Morgan Stanley & Co. International Plc

Q

Okay.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

And then regarding Iberia, Anvesh, so it is really volume related and I would say it is also especially strong performance in the small segment because when I look at the different segments, that's where we have really made a great job increasing our client base. So, I'm very pleased also by the way we realized this growth.

And now regarding LHH and the collaboration and the synergies with LHH and your question regarding the impact on the gross margin, I think at this stage is still quite limited. It will become more and more material but the materiality today is limited and should not be taken into account for Q3 and Q4 in your calculation.

Anvesh Agrawal
Analyst, Morgan Stanley & Co. International Plc

Q

Okay. That's very clear. Thank you so much.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

You're welcome.

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

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

Q

Hi. Good morning. Just a few quick ones if I may. Firstly, just to follow-up. On gross margin, you mentioned the working day would be neutral. Do you not have extra working days in Q3? Secondly, there was a question earlier about savings delivery into 2020. And quite rightly, you pointed out that there's little visibility around the macro, but I wondered whether that aside, you still think that you can reduce the gross savings whatever the net is? We'll wait and see.

Third, just on autos. Clearly, that's been weak. Can you give a bit more granularity about just how big a drag that has been on the business? And then lastly, in terms of U.S. clients, you talked a little about that earlier. With that some of the headwinds there, is that due to the kind of the macro environment or the segments those clients sit within or are they taking a slightly different approach to managing their own contingent labor? Thank you.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

I will start with auto and the U.S. and be quite brief because I'm looking at the time. Regarding the U.S., again, we see there is – we don't see any major change in the behavior of the market and the customer behavior. So, at the maturity of the cycle and we are growing since 10 years, it is clear that the candidates have the opportunity between temporary staffing and perm, they are choosing for perm. That's why we are growing 9% in the U.S. in Q2, so clearly demonstrating the strengthening of the market. As we said, the slowdown in Professional Staffing is mainly due to our IT activities where we had some big customers loss that we have to regain or new customers to regain. We have also adapted our value proposition, but it is really related to this. If I look at our Soliant activities, healthcare, education, double-digit growth. If I'm looking at finance and office, also growing activities and I've already given some comment on the General Staffing. So, no specific headwinds, absolutely not.

Regarding autos, autos is part of our business. It's less than 10% of our total revenues. And to give you precise figures, it explain about one-third of the deceleration.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Then on – yes, we have more working days but what's important we don't have more bank holidays. Because when we have that impact on the temp gross margins is where we have the bench model, is when we have more bank holidays. So, the working days doesn't impact on that.

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

Q

Okay.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

One more question then, we take one more person and then we have to close the call. Is there somebody?

Operator: The last question comes from the line of George Gregory from Exane. Please go ahead.

George Gregory
Analyst, Exane Ltd.

Q

Good morning. I just had one quick question. In terms of the GrowTogether benefits, you hopefully give the effect of New Ventures for the second quarter. I wondered whether you could just give us what's GrowTogether delivered in the second quarter, please?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Yes. I'll keep it to the [ph] key (00:59:16) headlines but we're bringing now tools into the business across our activity system and our activity system has three core components. One, we engage with the candidate and the new candidate tools for bringing into the French market are really working very well in better optimizing the matching and the engagement with candidates which drives the productivity but also helps us to find them. That we are, in the future, also bringing to other markets. So, that's completely helping already the business.

The second part of our business, once we have employed, attempt is to time capture and time interpretation, which we're digitalizing across multiple of markets and that is already fueling productivity also into the quarter. And last but not least, our new enhanced sales tools which drive the productivity in the sales organization. So, I gave you some examples behind the numbers we're quoting. And you see it coming through in the margin because if you look at the productivity in the U.S., [ph] more than (01:00:18) half of the sales tools are General Staffing. Productivity has grown up. We've seen it in France and all the key markets where GrowTogether is, productivity is coming through.

George Gregory
Analyst, Exane Ltd.

Q

Can you actually give the absolute impact from the margin from GrowTogether hand?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

That is around 30, 40 basis points.

George Gregory
Analyst, Exane Ltd.

Q

Okay. Thank you very much.

Nicholas de la Grense
Head of Investor Relations, Adecco Group AG

Thank you very much, everyone, for joining the call today. We'll see some of you on the road show and [indiscernible] (01:00:48) we look forward to speaking again with the Q3 results in November. Thank you very much.

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