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PRESENTATION

Operator

Ladies and gentlemen, good morning. Welcome to the Adecco Q1 results 2014 analysts' conference call. I'm Selena, the Chorus Call operator. (Operator Instructions). The conference is being recorded. (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 Hancock - *Adecco S.A. - Head of IR*

Good morning, and thank you. Welcome to Adecco's first quarter 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 quick look at the disclaimer regarding forward-looking statements, in this presentation.

So, let me give you a quick overview of today's agenda. Patrick will present the operational highlights, followed by an overview of the country performances; then Dominik will review the financials. Finally, Patrick will make some comments on the outlook; and we will then open the lines for your questions.

With that, Patrick, I hand over to you.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Thank you, David. Good morning, ladies and gentlemen. I will start with the highlights of the first quarter, where my colleagues around the world delivered another strong performance. We had revenues of EUR4.7 billion; up 6% in constant currency.

Gross profit grew by 10% in constant currency, and the gross margin was 18.6%; up 60 basis points year on year.

Costs continued to be well controlled. SG&A in constant currency, and excluding restructuring costs, was up 3% year on year, and up 2% sequentially, driven by wage inflation, and some limited investments.

This resulted in EBITDA, excluding restructuring costs, of EUR185 million; an increase of 41% in constant currency.

The EBITDA margin excluding restructuring costs was 4%; up 100 basis points on the prior year.

As we move through Q1 and into Q2, we have maintained our momentum. Revenues were up 5% for January and February, and up 6% for March and April in constant currency, and adjusted for trading days.

Let's have a look at our first quarter operating performance in more detail. On this, and the following, slide, I will give all growth rates in constant currency. I will start with the revenue development by region.

In Europe, revenue growth strengthened further to 7% in the quarter, and we saw double-digit growth in Iberia; Italy; Germany; and Austria; Benelux; and the Nordics.

In North America, growth was solid, up 2% year on year, somewhat negatively impacted by the adverse weather conditions in January and February. Both general and professional staffing grew at a similar rate.

Rest of World was up 4%. In Japan, revenues were flat in the quarter. Australia and New Zealand remained difficult. Here, our revenues declined by 21%, impacted by the [conflict] losses that we have mentioned previously.

By contrast, emerging markets' revenues grew 13%, with a further acceleration in Eastern Europe.

Looking next at the revenue development from a business line perspective, we see an encouraging development, in particular, in the industrial business.

Industrial is [earnings] cyclical, and, in general, picks up first in a recovery. Back in Q3 2013, industrial returned to growth for the first time since 2011. In the fourth quarter last year, we saw growth of 6%, and this accelerated further to 9% in Q1.

In office, growth remains modest, which is typical early on in a recovery. Revenues were up 1% in the quarter; the same as in the previous quarter.

In professional staffing, we have begun to see a moderate pickup, with revenue growth of 4%. IT is our largest business line within professional staffing, and it continues to show the strongest growth at 9%, mainly driven by the UK and Japan.

Let us also have a look at the first quarter revenue development by service line. Temporary staffing is our largest service line. Growth here accelerated to 5% this quarter, after 3% in Q4.

Revenues from permanent placements were up 5% in Q1; a further improvement from the 3% growth in the previous quarter. Within perm, we saw the strongest growth rates in North America; the emerging markets; Iberia; and Italy.

Outplacement again performed strongly, with 13% growth. This included double-digit growth in North America and France, which, together, make up approximately 75% of our business. The strong growth in North America, despite the relatively robust economy, was again driven by market share gains, and demand from the financial services and pharmaceutical sectors.

If we go to our main markets now in more detail, in France, revenues finally returned to growth; up 1% year on year. From an industry perspective, we saw a further improvement in automotive, and solid growth in early cyclical sectors, but the demand pickup is not yet broad based.

Our perm revenues we're up 4% quarter, compared to minus 1% in Q4.

The EBITA margin was strong at 4.8%, compared to 2.5%, excluding restructuring costs, in the same period last year. This improvement was primarily driven by price discipline and the impact of CICE, and helped by cost efficiencies.

Regarding CICE, please recall that we already had some benefit from CICE in Q1 2013. However, in Q1 2014, there was a further positive effect year on year. This is due to the increase in the rate of the credit from 4% to 6%, and the positive impact of the reassessment we made in Q3 2013 of CICE, relating to prior periods, and going forward.

For March, revenues were up in France 1%, adjusted for trading days.

We turn now to North America. Here, revenues were up 2%, with growth of 2% in general staffing, and 2% in professional staff.

Within general staffing, we saw good growth in the investment business at 9%. This was driven by good demand from the logistics, chemicals, and technology sectors.

The office business remains soft, declining still by 5%, primarily due to less demand from the financial services sector.

Within professional staffing, IT and engineering and technical are our two largest businesses. The North America IT business grew 5% year on year. In engineering and technical, revenues were flat. In perm, we delivered another strong performance, with revenue growth of 11%.

The EBITA margin excluding restructuring costs was 4.1% in the quarter; up 10 basis points year on year.

In March, revenues were up 4%, adjusted for trading days.

Turning next to the UK and Ireland, revenues overall were up 9%, driven by professional staffing. In our large IT segment, revenue growth was 17%. Perm revenues were flat in the quarter.

The EBITA margin of 1.9% was up 10 basis points, partly held back by client mix.

Revenues for March were up 5%, adjusted for trading days.

In Germany and Austria, revenue growth accelerated further to 13%. This was driven by a continuation of the pickup in our industrial business, which grew by 19% in the quarter.

We saw strong demand in the manufacturing and logistics sectors, and growth in automotive continued to be good.

Revenues in professional staffing fell by 3%, driven by engineering and technical, which is our largest profession staffing business in Germany.

EBITA was EUR27 million, giving an EBITA margin of 6.5%; up strongly compared to the prior year. This, in part, reflects the timing of bank holidays, which had a positive effect in Q1, but will have a negative effect in Q2.

For March, revenues were up 10%, adjusted for trading days.

In Japan, revenues were flat, after seven quarters of decline. The majority of our business in Japan is in office, which is typically later to benefit from a pickup in economic activity. That said, our export-oriented engineering business did see continued solid growth. And this positive mix effect allowed us to further improve our market-leading profitability with the EBITA margin increasing by 30 basis points.

In March, revenues were flat, adjusted for trading days.

Finally, in terms of regional performance, I'll touch briefly on some of our other markets. Italy, Iberia, and Benelux continued to perform strongly with double-digit revenue growth. The Nordics joined them in this respect with 10% growth; up from 1% in Q4. And we also saw a notable improvement in Switzerland, which returned to positive territory, with 4% growth.

In Australia and New Zealand, market conditions remain challenging. As you know, we are not satisfied with our own performance. We made some management changes in 2013, but it will take a couple of quarters before we see a meaningful improvement in our results.

In Lee Hecht Harrison, we delivered another quarter of double-digit revenue growth, and a very strong margin at 31.5%; clearly, outperforming the market on the top and on the bottom line.

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

Dominik de Daniel - *Adecco S.A. - Group CFO*

Thank you, Patrick. Good morning, ladies and gentlemen. I will start with an overview of the P&L.

Patrick already mentioned operating highlights in his introduction, with revenues of EUR4.7 billion, and EBITA of EUR180 million, or EUR185 million excluding restructuring costs.

EBITA excluding restructuring costs increased by 41% in constant currency. I will give some further detail on the [trials] of this performance in next few slides.

Looking further down the P&L, effective tax rate was 27% this quarter.

Net income grew by 64%.

And EPS grew by 69%, helped by the ongoing share price 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've been back in line with the long-term growth trend since Q1 2013; whereas before, we were below the trend for all of 2012 when Europe was in a mild recession. The consistency of this picture gives us confidence that we will continue to see steadily improving market conditions.

Sequential growth from Q4 to Q1 was encouraging, being again in line with the long-term trend. Outperformance was achieved in Germany, Italy, Iberia, and the Nordics. All the other countries were in line with their own growth trend, and this is the first time in the current recovery that we have not seen any key region underperforming the long-term trend.

Next, let's have a look at the year-on-year gross margin evolution. The Group's gross margin was 18.6% in Q1 2014; up 60 basis points year on year.

Temporary staffing had a 60 basis points positive impact on the gross margin, driven by our continued strict approach towards pricing, as well as the effect of the French CICE.

As Patrick already mentioned, please recall that we already had some benefit from CICE in Q1 2013. However, in Q1 2014 there was a further positive effect year on year. This is due to the increase in the rate of the credit from 4% to 6%; and a positive impact of the reassessment we made in Q3 2013 of fees relating to prior periods, and going forward.

Excluding France completely, the temp gross margin for the other countries combined would have been up by 20 basis points. This is a good result at this point in the cycle, when industrial business posted the highest growth rate at plus 9%. This clearly demonstrates our strong price discipline.

In the quarter, outplacement added a further 10 basis points to the gross margin.

Perm placement had a neutral effect, while other activities had a negative effect of 10 basis points.

Now let me discuss our cost base development in the first quarter. We continue to monitor revenue developments closely, and manage the cost base accordingly.

SG&A in Q1 was up 3%, compared with same quarter last year, in constant currency and excluding restructuring costs. This mainly reflects mix effects, higher IT costs, and higher bonuses, resulting from the strong performance in Q1 2014.

In the quarter, FTEs were down 1%, and the branches were decreased by 4% compared to the prior year.

Our Q1 2014 results include EUR5 million restructuring costs, compared to EUR11 million restructuring costs in the same period last year.

Sequentially, our cost base was up 2%, in constant currency and excluding restructuring costs, due to wage inflation and some limited investments in businesses where productivity is already at a high level.

Turning to the cash flow statement, in Q1 2014 cash flow from operating activities was EUR103 million, compared to minus EUR28 million in the same period last year. This year-on-year improvement was driven by primarily by the increase in profit, and the reduction of DSOs to 53 days; one day less than the prior year.

In Q1 2014, the Group invested EUR17 million in CapEx, and spent EUR30 million on the purchase of shares.

This cash flow performance led to a net debt at the end of March 2014 decreasing to EUR1 billion, compared to EUR1.1 billion at the end of December 2013.

Our net debt-to-EBITDA ratio stood at 1 times at the end of Q1 2014.

Looking forward, our financial guidance is as follows. CapEx for the year is expected to be up to EUR100 million.

Interest expenses, excluding interest income, are expected to be around EUR65 million for 2014. Please note that the quarterly run rate for the remainder of the year will be lower than it was in Q1, due to the repayment in April of a bond carrying a relatively high interest rate.

We anticipate corporate costs of approximately EUR100 million.

Amortization of intangible assets is expected to be approximately EUR35 million.

In 2014, we also expect to incur restructuring expenses of approximately EUR20 million. This is for the move to a single headquarter in North America, and several smaller projects in other countries.

For Q2, the underlying tax rate is expected to be around 28%.

SG&A in Q2 is expected to be at a similar level to Q1, in constant currency and excluding restructuring costs.

Please also recall that the positive impact we saw in Q1 from the timing of Easter will reverse in Q2.

With this, I hand back to you, Patrick.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Thank you, Dominik. Ladies and gentlemen, let me finish with our outlook. The momentum in our business remains positive. During the first four months of the year, we have seen a trend of gradual improvement. Revenue growth was 5% for January and February, and 6% for March and April, in constant currency and adjusted for trading days.

Based on the current economic outlook, we expect demand for flexible labor to increase further over the course of 2014. Two important trends in our business give us confidence in this outlook. First, the revenue growth pickup is being led by our industrial business, and demand in manufacturing has further accelerated. This is a good, early cyclical indicator.

Second, we now see double-digit growth across most of our regions in Europe. This shows that the European economic recovery is slowly strengthening and broadening.

We continue to be very focused on reaching our EBITDA margin of above 5.5% in 2015. We said that to do so we need high single-digit revenue growth this year, and next year. With our good start into the year, and the gradual improvement in demands we expect over the coming quarters, we are on our way to achieve this level of growth in 2014. And we remain convinced we will achieve our margin target in 2015.

With this, I'd like to open the floor for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Anasuya Sarma, JPMorgan.

Anasuya Sarma - *JPMorgan - Analyst*

My question is actually in relation to the buyback. You've only bought back EUR70 million worth of shares in the last six months. What do you plan to do with the additional cash being generated in the business?

Also, I guess, I wanted to check your M&A policy and what level of gearing you're comfortable with.

Dominik de Daniel - *Adecco S.A. - Group CFO*

If we look, we have a buyback program currently running for up to EUR250 million. We plan to execute this EUR250 million, or remaining EUR180 million, throughout this year. That means the cash generation was primarily in this direction. When we have done this program, we will see again. But we are very busy to execute this program. And there are currently no M&A plans.

Anasuya Sarma - *JPMorgan - Analyst*

Okay. Thank you.

Operator

Toby Reeks, Morgan Stanley.

Toby Reeks - *Morgan Stanley - Analyst*

Couple of questions. Could you talk about where you think you either are taking share or you are able to take market share in the more consolidated markets in which you offer -- in which you operate, sorry, and the reasons for that?

Then secondly, have you got any evidence of changes in penetration rates with your larger clients in those markets where growth is returning? Thank you.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

If you're looking at market share, I would say our growth is pretty much broad based. We are ahead on the top line, if you're looking at main peers overall. But if you look at the different markets, I would say in France we are in line.

In North America, we are in line with one of the players; we are a bit better than others.

UK, I would also say in line; Germany, a bit ahead; Holland, Belgium, clearly ahead; Switzerland, turning back to growth.

If you look at Italy, we are clearly outperforming the market there, so we are also in Iberia.

Then, Japan, knowing that we are in the office business, there we are somewhat behind the market. But that will come back as well now that we are turning to flat.

We also had a very good growth in Nordics, driven by Sweden, this quarter; but also a very strong growth in Denmark. And we see Norway also slightly coming back now.

Where we're clearly are outperforming the market is also in our outplacement business, where we, like I said in the presentation, both on top line and on bottom line are clearly outperforming the competition. We have the growth of 10%, where our major competitor has a decline of 4%.

Toby Reeks - *Morgan Stanley - Analyst*

Okay. In those markets where they are pretty consolidated, Holland and Belgium are examples of that, what is driving that change in market share? Is it pricing? Is it just the incumbents not performing that well? How should we think about that?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

It's certainly not pricing, because we think that pricing overall is very rational. We are, ourselves, very disciplined on pricing, like Dominik mentioned in the presentation.

Toby Reeks - *Morgan Stanley - Analyst*

Yes.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

[If you look at France,] and you look at all the other countries combined, our temp gross margin would also be up 20 basis points, so that's without the effect of the CICE and France, and without having France at all in the basket. So I think this is proved that we are certainly very disciplined on the pricing.

We have a scale advantage. We are doing well in executing on our commercial plans, so I think this is driving some gains in market share at the moment.

Toby Reeks - *Morgan Stanley - Analyst*

Okay, thanks. And then in terms of penetration with the larger clients, are you seeing more propensity to use more temp staffing?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

It's certainly, at this stage, still the larger clients that are picking up faster than the medium and small. There is still some hesitation amongst small and medium clients, which is kind of normal also early in the pickup. So the growth is mainly driven by larger clients, at this moment.

Toby Reeks - *Morgan Stanley - Analyst*

And do you get the sense that they are prepared to use a larger proportion of temporary staff as that growth recovers than they have been in previous cycles?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

This is certainly the case. I'm not going to say it's going to be more than in 2010 and 2011. But we always said that the modest economical growth that we are seeing, that it will be mainly driven, and mainly covered, by temporary labor, and that's what you actually see.

You can say that economical growth is now so great in countries like Italy and Spain. And the fact that we're growing now 14% in Italy and 16% in Spain is a proof that it's mainly covered by temporary labor and not at all covered by fixed labor; and that we will continue to see in other regions, as well.

Toby Reeks - *Morgan Stanley - Analyst*

Okay. Thanks very much, guys.

Operator

William Vanderpump, UBS.

William Vanderpump - *UBS - Analyst*

Just a couple of questions from me. Firstly, on the longer-term targets, the 5.5%, clearly, I think you showed that slide, you've got five or six quarters of pretty stable trends. You've got the CICE benefit, which is only increasing, and you're very confident of maintaining. That target was set a while back. So when this year do we expect that to be revised upwards?

I think, secondly, on outplacement, trends there are very good, and you're clearly taking share. But what drives that industry on a one- or two-year view? And, I suppose, what are the implications for growth rates, and margins in particular, please?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

I will handle your first question on the 5.5%. We always define the 5.5% as a minimum target, and we are not going to increase now that expectation. I think we should first achieve this target, which will be the first time in our history. And since it's defined as a minimum target, if we can do more, we will do more.

Please recall that we announced that target already in March 2010, but in the meantime we also had some negative effects. For example, in 2011 subsidies were cut back in France. We didn't revise our target, either. Now they're more on our side, we're not going to revise it for this. But again, if we can do more, we will do more.

We said that we need two years in a row of high single-digit growth in order to achieve the target. We're doing well on the gross margin level. And with the start of 6% into the year, we feel confident that we will achieve the high single-digit growth on the top line, and that we will achieve our target in 2015. But again, it's a minimum target.

William Vanderpump - *UBS - Analyst*

Okay.

Dominik de Daniel - *Adecco S.A. - Group CFO*

William, I'll take your question regarding the outplacement business. If you look to our outplacement business, it's doing, actually, quite well.

We believe that we also gain market share. And one reason for this is definitely that with the combination with DBM a couple of years ago, I think, we are the only global player who is capable and able to deliver all of our large account bases in every key region with a strong operation, with a strong set up. And we definitely, with this, attract a lot of clients, which is very good.

That said, you maybe think why is this growing still so strong if the economy is recovering? If you look to our business, 75% of sales we're doing in US and France, and both regions growing double-digits, which led then the whole business to a kind of 10% growth for the first quarter, Lee Hecht Harrison. And if we look to it, there are different reasons.

In France, we had, during the, let's say, mild recession in 2012, no growth because unions and government pushed back a lot on restructuring. And now they are more open; they support more restructuring. So we benefit later than normally from this need, and I think the need is quite high in countries like France, and, therefore, we're growing double-digits.

Whereas, in the US, there we have a recovery, but today it's also rather moderate. You have industries which struggle, which has less to do with how much GDP growth is around, and we benefit from it, especially financial services. But it's also the pharma sector, where we have a strong market share, and that's the reason why we're growing in this area quite well.

For the long term, this business is still clearly geared to the economy. That means if the economy recovers, under normal circumstances, this business should slow somewhat down and be [somewhere else]. I think this is quite normal.

On the other hand, it's fair to say, and maybe this comment is rather early stage, but if you look to the last couple of weeks and the M&A activity, which is increasing in different sectors amongst other pharma, this is, of course, opportunities for us. Because besides just the cyclical development, or the under-cyclical development of outplacement, it is driven by M&A activity. So if one or the other bigger merger happens there, we should definitely benefit as the global leader in [fact].

In terms of profitability, I think the profitability is around 30%, or in Q1 31.5%; anyhow, outstanding. So I would not take the higher margins into account.

We said, on a normalized level, we feel comfortable with profitability in the higher 20s-%. But our model is very flexible; meaning, if the economy would once improve a lot and this business would slow down, we will maintain a very strong profitability, because we manage the cost base in this business very well, as we know from other pickup times, like in 2010 and 2011.

William Vanderpump - *UBS - Analyst*

Okay, great. And just in relation to the first part of your answer, Dominik, I know you've talked about the early cyclical industry and manufacturing picking up. I suppose, in a normal cycle, in a normal economic cycle, when would you expect the outplacement growth to slow? Is that one year past, or three years past? Is there any rule of thumb you would give there?

Dominik de Daniel - *Adecco S.A. - Group CFO*

Normally, if you look to a normal cycle, the GDP growth is in the beginning somewhat better than just very moderate, and you would see it already now. But since the GDP growth is rather moderate, we're not seeing it yet.

However, if you look country by country, Germany, their GDP growth is rather better. We don't grow any more in outplacement, so there we see the slowdown already. Let's say, for the short term, I am confident that we still show a very solid single-digit growth. And then, we have to see how the economy is further recovering.

As said, in the US, there are also industry driven-related areas, like pharma, like financial services, which have less to do with just the normal GDP recovery.

William Vanderpump - *UBS - Analyst*

Great, that's really helpful. Thank you.

Dominik de Daniel - *Adecco S.A. - Group CFO*

You're welcome.

Operator

Laurent Brunelle, Exane BNP Paribas.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Couple of questions for me. First, could you possibly give the organic growth rates in April, by country?

Second, on France, so you return to positive growth in the quarter. Could you be more specific by segments? Now you are more confident on France than three months ago, please?

And lastly, on the restructuring costs, could you maybe give some indication of phasing for the EUR50 million left for the full year? Thank you.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

On the organic growth for April, Laurent, we're not going to give this now per country. We have given it for the Group, but we're not going to give it for the country.

But, let's say, it's pretty similar as the development that you're seeing. It's somewhat improving, if we had five and five, and then six and six. And then, in countries like Iberia and Italy, it's somewhat improving. And then, for all other countries it's more or less in line with the overall development of the Group.

If we look at France, we always said that France would be the country that would come back as last country in Europe to growth. We said this would happen in the course of the first half. It happened now in the first quarter, and it's very modest there with 1%, as you have seen.

For us, it's important also there that we keep our leading profitability. If we look at the segments, it's not yet broad based. Automotive was good. Manufacturing was, again, also positive. Construction also was still flat.

So, yes, with a 1% growth it's still very modest. But we expect France also to once improve, helped by the other European countries. But because of the lack of reforms, it will be the last country to accelerate.

Dominik de Daniel - *Adecco S.A. - Group CFO*

Moving to the restructuring costs, the big majority of these restructuring costs is related to the headquarter move in North America, from one headquarter to headquarter.

But you have to consider the restructuring charge of around EUR5 million in Q1 is basically a write-down of a building which we owned, because we said this building was a non-cash item. For this, there is also no benefit to be expected, but it's also a non-cash item.

And the retransformation costs and reduction costs will basically kick in as of Q2. Since we moved there quite -- some two headquarters together, it will also take time to transform this. So the savings from this restructuring will only kick in as of late autumn, with much more benefit over 2014.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay, great. And if I may, a follow up on France, on the gross margin. Is it fair to say that the margin improvement in Q2 will be much lower than in Q1, given less CICE benefits?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Say that again, Laurent.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Just trying to understand, is the CICE benefit in Q2 in France will be lower than in Q1? I guess it should be, because the comps will not be the same than last year. Is it fair to say that?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

No, I think the comps will be more or less the same, because we only revised our -- the reassessment, as you know, Laurent, in the third quarter. And then, that had then, at Group level, an impact of 50 basis points, as you might recall, in that reassessment. So in Q2, we will see a similar development as in Q1.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Right. And it should ease from Q3?

Dominik de Daniel - *Adecco S.A. - Group CFO*

Yes.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay. Thank you very much.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

But you still will have the effect in Q3, of course, that it's still 6% over [40] (multiple speakers).

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Yes, sure, definitely. Okay, great. Thank you very much.

Operator

Nick de la Grense, Bank of America Merrill Lynch.

Nick de la Grense - *Bank of America Merrill Lynch - Analyst*

A couple from me, please. Firstly, just on the UK exit rate, it's plus 5% in March. I was wondering if you could give a little bit of color on the slowdown there, and how you see that market developing, going forward.

And then sticking with the organic growth theme, I'm surprised to hear you're still talking about the prospect of high single-digit organic for 2014. I'm just wondering if you could, perhaps, define what you classify as high. Is it 7, is it 8? And also, just say where you think the further acceleration in growth might come to get you there.

And then the last question, just on gross margin, encouraging to see that ex-France it was up 20 basis points for temp. Somewhat confusing as well, because industrial's outperforming, and normally that would be a drag on the gross margin. I was wondering if you could explain the dynamics there, and what we should expect over the coming quarters. Thanks.

Dominik de Daniel - *Adecco S.A. - Group CFO*

If we start with the exit rate in the UK, it's 5%. Of course, it looks like it's slowing down compared to the run rate of the quarter of plus 9%. Now, we have to be careful in effecting exit [with on the same months], especially if you have a huge trading day impact. Therefore, we also said margin it will combine.

And if I look to combined, I see in the UK a very similar picture than Q1. So I would not say now that the UK is slowing down, from this point of view.

Now, the high single-digit growth is just an indication there. There are other components who drive our profitability, but this is just a kind of ballpark and indication number. And for us, low single-digit is between 1% and 3%; mid is 4% to 6%; and high is 7% to 9%. But again, this is just an indication.

For us, it's important that we are back on the long-term trend since five quarters. And I think with plus 6% in Q1 we had a good starting point for the rest of the year.

Now where does it come from? It's still early in the cycle. Industrial is now growing. Of course, towards the second half of the year, if we have a normal recovery we should see also some recovery in the businesses with more professional exposure.

We -- for example, also US, there we have a high professional starting exposure. But also, we should see some other industries picking up. So in general, I would say it's just the normal ongoing development in a kind of normal recovery.

As I said, 6% is a good starting point. [Retail is not above], nor significant changes needed in this respect. And it has, of course, also to a certain extent, to how the GDP development goes on in the quarters to come.

If we look to the temp margin development, in Germany, the temp margin is also up because of this different -- In Bank Holidays, we had the Good Friday last year in March, this year it was in April. So there is also a, I would say, little bit less than the half of the 20 basis points is because of the comparison with the Bank Holidays. So this will reverse into Q2.

But on the other hand, where is the temp margin going up? It is going up in North America; it is going up in Japan; it is going up in emerging markets. So in these markets, the temp gross margin is actually going up and helping the Company, even but excluding France, which is of course positively impacted by CICE, to increase our temp margin.

Nonetheless, [that turns] the industrial business with the lowest temp gross margin is the key growth driver.

Nick de la Grense - *Bank of America Merrill Lynch - Analyst*

And so you think -- would it be fair to say that as you expect non-industrial sector to pick up in the second half that, leaving the German impact aside, it would be reasonable to think that the gross margin could continue to rise over the rest of the year?

Dominik de Daniel - *Adecco S.A. - Group CFO*

You know that we have a very low visibility, and we are not alone on the market. We believe today that the market is very rational and pricing is disciplined and [generous], so that's definitely the case.

I say in the normal cycle, and so far it is a normal cycle, industrial starts first; the other professions starting this is coming later. Also clerical, which, as Patrick said, 1% is still modest growth, but it's very normal at this point of the cycle.

But all these other businesses have higher gross margins, and we will see it throughout the year. But so far, we are very confident for our gross margin.

Nick de la Grense - *Bank of America Merrill Lynch - Analyst*

Great, thank you very much.

Operator

Konrad Zomer, ABN AMRO.

Konrad Zomer - *ABN AMRO - Analyst*

I've got three relatively quick questions. The first one is on your margin development in the US. The 10 basis point improvement is okay. But now that your growth is accelerating, are you comfortable if people assume that your EBITA margin in US can actually go up quite significantly, given the current market circumstances?

My second question is on manufacturing. When you say in your outlook that you see the demand for manufacturing accelerate, can you maybe quantify that a little bit and give us a feel for how -- what's the proportion of your business that you would qualify as manufacturing, and what sort of difference in growth rates as you seeing?

And my last question is on Australia. You mentioned that you were not happy with your own performance, but can you give us a better feel for what you see in the market, and whether you think that market has stabilized already? Thank you.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Konrad, I will take your first and your third question. On Australia, it has to do with the market, because the market has been tough. We've seen that also from other players. But fair to say, we lost these major customers.

And we have quite an exposure in our professional staffing to the mining industry in West Australia, in Perth. And there, we had some -- a quite number of our people sent back and being on the bench in the first quarter, and that had also an influence on our profitability.

So we are convinced that we will turn the tide in Australia, in the course of this year. But as I said in the presentation, it will take a couple of quarters for us to have this rectified. We absolutely -- the fact that two big customers have such an impact on our top line means that, underlying, our customer base was, and is not, broad enough.

But it's not because you're having now more commercial activities, or another sales and management team in place, or whatever, that suddenly the customers are knocking on our door, and that tomorrow this will be solved. This -- we, first, have to do all the effort, and then the sales will follow.

But Australia has always been a very fragmented and very tough market. Also, a very competitive market, comparable to the UK. So it's not a market now where you can now expect tremendous improvements also for a longer period of time.

If we look at the margin for North America, we had 2% growth. And our margin is up 10 basis points, which is still -- our margin is still increasing twice the pace of sales growth. Now, this is not, of course, a very strong leverage.

You also have to see, like we said that we were, like other players, negatively impacted by the severe weather conditions there. Our growth would have been more around 4% in the first quarter, if that would not have been case. And, of course, that additional gross margin generated by this additional 2% would have fallen to the bottom line, and this would have been an additional 20 basis points, 25 basis points. But, okay, that's now the case.

You also have to see that our growth is mainly driven by industrial, which is up 9%. As I said, office was still minus 5%; professional is only at plus 2%.

So we can say we should expect there more a better operating leverage in the quarters to come. But for this quarter, considering all these circumstances, we are okay with what we have achieved there.

Konrad Zomer - *ABN AMRO - Analyst*

Okay.

Dominik de Daniel - *Adecco S.A. - Group CFO*

If we look to the manufacturing business, and the manufacturing it's not meant to be including automotive electronics, that is a dedicated sector, but let's say, the normal manufacturing of normal goods which are used in other industries, again, is around [15%] for the Group. It depends from country to country.

And if we look to it, we had there, mid single-digit decline one year ago; we're then close to flat in Q2; we have grown then in the second half nearly double-digit; and now clearly double-digit.

But what is more interesting is to see how more and more countries growing in manufacturing. In Q3, it was only Germany and Spain. In Q4, it was a couple of more European countries. And now, it's the whole Europe. And this gives us confidence in this respect.

Konrad Zomer - *ABN AMRO - Analyst*

Okay. Thank you very much.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Thank you, Konrad. Next question, please.

Operator

Tom Sykes, Deutsche Bank.

Tom Sykes - *Deutsche Bank - Analyst*

I wondered if you could just add a bit more clarity to the LHH discussion? Just, what actually is your assumption of sales growth relative to the mid single-digit Group required to get to the 5.5% target, please?

And then, just on the profitability in Germany, I think if we look at it now you're probably about 9%, 10% higher organically than you were in Q1 2008, but your EBITA is down about 25%, 30% over that time. And even if we look at it versus Q1 2011, I think you're about 18%, 19% higher, but your EBITA is essentially flat.

Could you, maybe, say what's happening to gross margins in your German business, please? And maybe, if you could say where your absolute level of gross profit is, perhaps, compared to Q1 2008, given that your sales are actually higher, please.

Dominik de Daniel - *Adecco S.A. - Group CFO*

If we, first, look to our outplacement business, so in our plan, to be honest, we assumed a much lower growth rate, because we were not expecting, when we have done our plans one year ago, that Lee Hecht Harrison will start in this magnitude. So this is definitely more on the upside.

Going forward, please consider as well that, it's also important for the gross margin forecast, the strong quarters for outplacement is Q4 and Q1. So you have, from a seasonal point of view, a weaker quarter in Q2, and then especially in Q3, just to take this into account when you talk about gross margin.

Now, looking to the German business, if we look to it, it's basically there are two reasons. First of all, the growth over the recent years, or let's say recently, is driven by the industrial business. And there, the gross margins, and also the EBIT margins, are clearly lower than the professional business. Our professional business is currently down -- still down minus 3%, and industrial business is growing 19%, so it's quite a difference.

It's also fair to say that if you compare to 2007, or 2008, we had a time where we had no collective wage agreement at all. It was really a free labor market, and profitability levels at this time were, clearly, higher. And since the downturn ended, I think we had good growth in the German business.

There was also a big drop in the German business during the downturn. Knowing that GDP was down 5%, automotive was very hard hit back in 2009. But since then, the recovery is primarily driven by industrial business. That's actually the case in this respect.

Looking to March levels, we always said, historically, before we had equal pay contracts. This is a country who could achieve slightly double-digit margins. And then since we have the equal pay contracts, we think a margin potential is higher single-digit. And I think this is still feasible for Germany.

Tom Sykes - *Deutsche Bank - Analyst*

Okay, thank you. And in terms of the pricing dynamic there at the moment, and going forward, you're seeing that as benign? There's no extra pricing pressure now? And how quickly are you able to recoup the impact of the wage increases, or have you been able to recoup the impact of the wage increases, last year, please, in Germany?

Dominik de Daniel - *Adecco S.A. - Group CFO*

If you look to Germany, gross margins are down. We have so much wage inflation and indirect labor costs which are increasing, and the surplus system. I think we're doing a good job to pass on this in absolute value, but not with the profitability on top of it. So that means that, in percentage, the gross margins are somewhat down.

Now, also, there's the new -- with this new calculation, which we said after Q4, with the [snip loan]. And this seems to be passed on, but we cannot expect from this an additional absolute gross profit, it's pretty clear.

And if we look to our growth, if you look to the 13% growth, half of it is volume; and the other half is just a kind of price inflation to pass on wages and indirect labor costs, which in Germany definitely increasing.

Now, we believe there is rationality, in general, when it comes to pricing. But, of course, there is always also, by one or the other client, a competitive situation. It's quite normal.

Tom Sykes - *Deutsche Bank - Analyst*

Okay. Thank you very much.

Operator

Alain Oberhuber, MainFirst.

Alain Oberhuber - *MainFirst Bank AG - Analyst*

I have three questions. The first question is just about your DSO, which was down again by one day. You gave us an indication that you don't expect to be down any further in the full-year results. Now there's an improvement, do you expect it for the year to be the same as we've seen in Q1?

Secondly, about the SG&A costs. As you say it, Q2 stable to Q1, excluding extraordinaries. Could we expect then for the [stabilization day] costs as well? Or on the other side, what is still the capacity you have in the distribution to have incremental sales?

And the last question is again about price discipline. Is price discipline overall the same? Or do you already see some markets where there is more competition going on?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Alain, I will take your third question on the price discipline. I would say, overall, and you see that also in the improvement of the profitability of other players, the price discipline is there, and I would say the pricing environment is rational.

In this comment, I would exclude, to a certain extent, Canada; I would exclude Australia somewhat; and somewhat Switzerland. But all other markets, we see a very rational behavior of the more important players.

The DSO, Dominik?

Dominik de Daniel - *Adecco S.A. - Group CFO*

If we look to the DSO, it's improved by one day, 53 days. We always said on DSO below 55 days is a good mission, is a good goal. Historically, before we (inaudible) by around 60 days, so this is a good number. It's not that we think it goes now further materially down, but, of course, it can always move one day in or the other direction.

From a cost point of view, it will be from Q1 to Q2 sequentially; excluding restructuring and same currency it will be similar. This is our current expectation.

And when we then move on throughout the year, you know you have always to see -- we manage the cost base how our trading is going. So we have then to see how is Q3; do we have to [access their] resources, or not? But, in general, we try to manage this in a right way. And, if you look in Q1, we had 10% gross profit growth; and then relatively, 3% cost growth, I think, is a good level in this respect.

When it comes to capacity, in general, we believe we have really enough and sufficient capacity to grow this business without adding here material headcount back.

There is one or the other countries where we just add back headcount. For example, in Italy it's the case, because we were running this with a very high productivity, we growing very strongly. We are quite optimistic when it comes to our outlook for Italy, so there we definitely added back resources and just add back some resources in Italian business.

And that's also the case for one or the other smaller markets. But for the other big markets, we are not there to say now we have to add back resources. Maybe here and there in perm. Of course in perm, if we see in one or the other countries a good trend you have to add back resources.

Alain Oberhuber - *MainFirst Bank AG - Analyst*

Thank you very much, gentlemen.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Last question, please?

Operator

Hans Pluijgers, Kepler Cheuvreux.

Hans Pluijgers - *Kepler Cheuvreux - Analyst*

One first question, also going back on your target, and where you provided in the past the building blocks, let's say, 1½ years ago.

In principle, you could argue that the gross margin has performed quite a lot better. Initially, also, you indicated that you needed high single-digit growth over in 2014 and 2015. Could you assume us a little bit that your building blocks has a little bit changed; that maybe you could do with slightly less top-line growth and that the gross margin is doing better for you? Could you give some feeling on that, how the building blocks has changed through the last 1½, two years?

Then coming back on the perm business, in the UK you saw, in general, that the market is clearly improving for Adecco. You see a little bit slippage compared to Q4. Is there any reason behind that? Or are you taking some additional measures to, let's say, let it improve?

And lastly, purely a detail question on the CICE. Just to check, have you changed -- any change, let's say, in the calculation of the CICE compared to Q4? So is the percentage of the total CICE still unchanged, or have you made some [minor] change there?

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Thank you. I will take your second question on perm in the UK, and Dominik will take your other questions. It's true that we are a bit behind the market in UK in the first quarter. This has to do with the less exposure that we are having to the government and to construction, which both were components that were growing quite substantially for other players in UK market.

Now we had quite a good exit rate in March. And we are also confident about our perm development in the second quarter; that it will, for sure, pick up. And we're also shifting some resources from temp to perm there, so this should help. So our perm development in the second quarter will be better. But fair to say that we are, indeed, a bit behind the market in the first quarter.

Dominik de Daniel - *Adecco S.A. - Group CFO*

Coming to the 5.5%, there are a lot of drivers who have an impact on this 5.5%. As I said before, the growth rate is more a ballpark number to have the indication.

In general, it's not that building blocks have changed, because we basically said one year ago we believe we're coming out of this mild recession for our business. We are back in the long-term trend. The long-term trend, it says, is around 5% to 6% annualized growth, and we show now in Q1 plus 6%, so it's a good starting point.

And if we look to it, what is maybe the case, and that's one reason for the good gross margin, also that the mix is maybe somewhat better. Because I said before, this outplacement with Lee Hecht Harrison is doing very well.

And in general, there is the tendence that the growth is coming rather from countries so far this higher gross margin. Nonetheless, it's industrial driven. But these countries have also somewhat higher cost base than the countries with low gross margin, so partly this higher gross margin leads also to a bit more cost, relatively speaking.

On EBIT, it's still positive. But we cannot just translate this gross margin into EBIT if the mix is changing. At this 3% cost growth, it's also because of mix. It's not that we just spent more money. So, therefore, in respect of the plus 10%.

And when we look to CICE, we have done this in the same way like we have done it Q4. Of course, there are -- the change is that as of December 1, we have 6%, instead of 4%. So this was one month in Q4 with the 6%, and now it's the full quarter.

Again, I think we cannot look to CICE standalone because here and there we have indirect labor costs, which are more difficult to pass on. For example, as of April 1, there is a new training fund introduced in France where we have to accrue around, as of April 1, 30 basis points. I'm sure we will also get benefit from this training fund, but the rules how we get the benefit are not clear. What is already established is what we have to pay, so that has a 30 basis point impact, and this we have also taken to account here.

Hans Pluijgers - *Kepler Cheuvreux - Analyst*

Okay. Thank you very much.

Dominik de Daniel - *Adecco S.A. - Group CFO*

That's [30 basis points] of France, by the way; France.

Patrick De Maeseneire - *Adecco S.A. - Group CEO*

Thank you. Ladies and gentlemen, this concludes our call for today. Thank you for your interest in our Company, and for your interest in our first quarter results. If not before, we'll talk again for our second quarter results, on August 7.

And I also would like to invite you, once more, for our Investor Days, which will take place on September 24, and 25, in Rome. You will receive more details around these Investor Days soon. But I would like to already ask you to book your agendas for September 24, and 25, where we're going to convene all of our investors, analysts in Rome.

Thank you very much for your interest, once more. Have a good day, have a good evening. Thank you.

Dominik de Daniel - *Adecco S.A. - Group CFO*

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.
