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# Adecco Group AG (ADEN.CH)

Q2 2017 Earnings Call

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Alain-Sebastian Oberhuber

Analyst, MainFirst Schweiz AG

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Analyst, Bank Vontobel AG (Research Firm)

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### MANAGEMENT DISCUSSION SECTION

David J. Hancock

Head-Investor Relations, Adecco Group AG

Thank you. Good morning, everyone, and welcome to the Adecco Group's Second Quarter 2017 Results Conference Call.

To present to you today, I'm joined by Alain Dehaze, Group CEO; and Hans Ploos van Amstel, Group CFO.

Before we start, please have a look at the disclaimer regarding forward-looking statements in this presentation.

So, let me give you a quick overview of today's agenda. Alain will first briefly present the highlights of the quarter. Hans will take over to review the financial performance and also to comment on the outlook. And Alain will then discuss our strategic progress and initiatives. We will then open the line for your questions.

And with that, Alain, I hand over to you.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, David.

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Good morning, ladies and gentlemen, and welcome to our second quarter results conference call. I will start on slide 5 with the key highlights of the second quarter. In the second quarter, we delivered a good performance, and I would like to thank my 33,000 colleagues who are collectively responsible for these results.

In summary of the second quarter, there are five key points. The first one is that the growth momentum continues. We had strong growth in Southern Europe countries. We accelerated in the Benelux, in Iberia and in the rest of the world. We had very good performance with the perm with the growth accelerating compared to the first quarter. And we are working to improve our growth in Germany and in the U.S., and in the U.S., especially in General Staffing which we see as an opportunity.

The second point is the margin leadership, which is further strengthened while we are investing for the future in digital and IT. We continue our price discipline, and we continue also to focus on our productivity with a productivity which has been increased in the second quarter.

The third point is an excellent cash conversion in this quarter and this is sustaining the strong balance sheet. Further, the growth rate was maintained entering the third quarter. We had an exit rate in June of 6%, and we see that the volumes in July are showing continuation of the trend.

At that point of this introduction, we are moving forward on our strategy. We are implementing the segmentation strategy, and we are making good progress on digital. We signed a global partnership agreement with Mya, we launched the Active Placement model in LHH, and we have commenced the UK rollout of Adia.

So, as you see from the summary of the second quarter, we continue to perform, to transform and to innovate. And with this, I hand over to Hans for more insights on the financial performance.

#### Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

Thanks, Alain.

The sales growth continued into second quarter. Sales increased 6% in the quarter and for the first half of the year. France and Southern Europe continued to deliver strong growth, supported by improvements in the underlying economies. Sales accelerated in the Benelux, Iberia, Australia, New Zealand and in the developing markets. We are putting the actions in place to improve the sales growth in Germany and North America General Staffing. Last but not least, we're pleased with the progress in permanent recruiting.

Our Q2 margin of 4.8% confirms our profit leadership. So, we are delivering continued strong profitability while investing for the future. Quarter two results were impacted by the timing of Easter, which helped the first quarter. Therefore, it's better to look at the combined results for Q1 and Q2.

Our EBIT margin is up by 20 basis points over the first half. This improvement is mainly driven by an organic increase in the margin. In addition, we had a small margin benefit from having divested the underperforming businesses in Latin America and Eastern Europe in Q3 of last year.

A couple of more points when looking at the country profitability. DACH and Northern Europe were impacted by the timing of Easter. Adjusted for this effect, the EBIT margin was stable or slightly up in these markets. So, we continue to improve our profitability across the business.

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Analyzing the EBIT performance in more detail, starting with gross margin. Second quarter gross margin was impacted by the timing of Easter and bank holidays. For the first half, the temp gross margin is down 40 basis points or down 30 basis points on an underlying basis as you might recall that we had a help in the first half of 2016 in France in social security. The underlying trend of around 30 basis points is driven by pricing and mix, and is consistent with what we have seen in the past.

Moving to SG&A, we see continued strong productivity and invest in digital and IT. We delivered 6% sales growth with only 1% increase in head count. SG&A is up 2% and our conversion ratio from gross profit to EBITDA is 26%. This confirms our productivity leadership while we are investing in new digital solutions and IT technology.

Turning to cash and balance sheet. Cash conversion continues to be strong and our balance sheet is healthy. Overall, cash conversion was excellent. Receivables measured in days sales outstanding are stable at 51 days. Net debt to EBITDA at 0.8 times versus 1.1 times EBITDA last year. We spent €110 million to buy back 1.6 million shares up to the end of July.

Looking at the outlook, the growth continues. The June exit rate at 6% confirms the continuation of growth. A couple of other comments for your models for Q3. Q3 gross margin we expect to increase slightly sequentially which is normal when Easter falls in Q3 as it did this year. Quarter three SG&A, we expect to be similar to Q2 on an organic basis.

Back to Alain to talk on perform, to transform, and innovate.

#### Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, Hans, and indeed, let's now zoom in our strategic program.

As you know, our strategic and operational agenda is driven by the approach of Perform, Transform, and Innovate. And I want here to highlight three important developments in the area of digital innovation and IT investment.

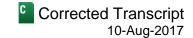
First, the global partnership agreement with Mya Systems, then the launch of Active Placement model in Lee Hecht Harrison, and then the beginning of our UK rollout of Adia. All having elements of Perform, Transform, and Innovate.

Turning first to our partnership with Mya Systems. Mya is an artificial intelligence-enabled chatbot, a chatbot that automates outreach, screening, and communications with job seekers. The chatbot applies advanced matching algorithms, machine learning and predictive models to shortlist large applicant pools. And then the chatbot allows to automatically schedule interview with suitable candidates.

Mya integrates with the Adecco Group's applicant tracking system software and calendar systems to drive time savings, increase efficiency, and improve the candidate and client experience. With this global partnership, Mya Systems' tool will be integrated into the Adecco Group's solutions and jointly marketed to potential new customers and existing Adecco Group clients.

Now, the Active Placement model. As you know, Lee Hecht Harrison is the global leader in career transition and talent development. Its revenues are twice the size of the number two player, and its profit is three times as large. But it is not only important where LHH is today, but also where it is tomorrow. That's why we launched the Active

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Placement model, a new approach to career transition. Traditional career transition focus on coaching people to enter the job market. Active Placements uses technology to increase the scope and effectiveness of our services.

At the beginning of a program, our digital career agent quickly engage candidates who all received branded and search-engine-optimized CVs and profile. So, traditional coaching is enhanced with data-driven assessments and online reputation management. And our new Digital Talent Exchange matches job-ready candidates to curated opportunities and connects directly candidates with hiring managers. Early results from our pilot shows significant reductions in time to placement and high satisfaction scores from candidates and talent acquisition professionals.

Finally, I come to Adia. With Q1 results, we announced the launch of Adia. And in this quarter we have begun its international rollout. As a reminder, Adia is a mobile-first, end-to-end platform for employers to find temporary staff for short assignments, focusing on hospitality and events, focusing on candidate's profile for the SME segment. It was launched in Switzerland earlier this year with an international rollout plan for the coming quarters We started the rollout in the UK with the first pilot in Q2 2017. This is, for us, an important and exciting step as the challenge for these kind of ventures is to scale internationally.

We have here a strong advantage in our close development partnership with Infosys. This allow us to move and scale up very fast in adapting Adia for the UK market. So, within only few months of the first UK pilot, we will be launching across several major UK cities.

Having just spoken about these three digital initiatives, it is a good time to invite you to our Capital Markets Day, which will feature many of our digital initiatives. The theme this time is Making the Future Work. The world is changing, in part driven, by technology. We see this as a very exciting opportunity. And we want to show you what we see. So, please, join us on September 22 in London.

And as well as seeing showcases of our digital ventures, it will be also a chance to meet our new head of Investor Relations, Nicholas de la Grense, who will be taking over the role from the very beginning of September. He was most recently Head of the Business Services Research Team at Bank of America Merrill Lynch, and so many of you will already know him. Nick will replace David, David Hancock.

After four years in the role and two years with us, David is moving into the business as Head of Finance for Digital. And I would like to thank him for his great support in the IR role and wish him very success in his new position.

Coming to the concluding messages. In the second quarter 2017, we have performed, transformed and innovated. We performed by delivering continued growth, margin leadership and excellent cash generation. This growth momentum continued in June and July. And we are transforming and innovating by implementing our strategic priorities and investing in digital and IT.

I thank you for your attention. And now, I would like to open the line for questions. And to allow everyone their opportunity, may I please ask you each to limit yourself to two questions.

### QUESTION AND ANSWER SECTION

**Operator**: We will now begin the Q&A session. [Operator Instructions] The first question comes from Robert Plant, JPMorgan. Please go ahead, sir.

#### Robert Plant

Analyst, JPMorgan Securities Plc

Good morning, everyone. Can you give us an update, please, on your views on France, particularly CICE and labor market reform, what you think is going to happen in the next year? Thank you.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Yes. I will start with labor market, and Hans can give more insight on the CICE.

Labor market, as you know the – first of all, the labor market is dynamic today. There is a very important event coming in September. It is the labor market, French reform. We are positive regarding the initiatives the Macron government has taken. According to what we see today, September and October will be the key moment when the new initiatives will be implemented. It looks like it is going without too much noise that the unions are cooperating.

And so we are very positive because if this is going through, it will give much more agility and fluidity for the French labor market and continue to increase the attractiveness, the competitiveness of France and hopefully attract investment. And with the investment, you have employment and it is good for our business.

#### Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

Maybe a little bit more color to CICE. The CICE is now in its fifth year. The approach is confirmed till 2019. There are some discussion around the change, which might or may happen in 2019 with the change to reduction and social security.

So, it's very early to comment what that will have – what that will do – the change would have implications for our companies. But what we're confident is that what will happen is we'll continue to be good for driving the economy in France, driving the employment and driving the employment that will also be good for our business.

#### Robert Plant

Analyst, JPMorgan Securities Plc

Great. Thanks a lot.

#### Alain Dehaze

Chief Executive Officer, Adecco Group AG

You're welcome, Robert.

Operator: The next question comes from Toby Reeks, Morgan Stanley. Please go ahead.

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#### Toby W. Reeks

Analyst, Morgan Stanley & Co. International Plc

Can I ask – obviously stick to two, but could you talk about the pricing environment, what you're seeing certainly in some markets where you've got wages which look as though they at least should be going back and your ability to price up on that.

And then secondly, when we think about your technology investments and the partnerships you're making, could you talk about how you think barriers to entry for the starting entities have changed? I've talked to you about this. We've discussed this before, and it seems that things like database in the past, working capital and things like onboarding and payroll have been the barriers to entry.

Is that something you guys still believe in? Do you think those have softened or do you think they're actually – as we move into a more digital world, it gives you a competitive advantage? Thank you.

#### Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

Yeah. Maybe, let's start with the pricing environment. We saw in this quarter, a little bit better margin. But if we look on the whole, the underlying competitiveness of pricing, but also impact by mix we've seen in the temp business around that 30-basis-point reduction, that is not different than the past and no different what you see in the market. We're in a competitive market, that's one.

If you turn to inflation where you see some inflation in the U.S. and just very small parts of Europe, that we pass on the bill rate. So, when we see [ph] regeneration (19:19), we can pass that on. And that does not impact because it multiplies in us, so we get the benefit of the multiplier. We have seen some inflation in the U.S. But inflation is still relatively low in all the other markets.

#### Alain Dehaze

Chief Executive Officer, Adecco Group AG

Okay. Now, on your questions regarding technology and entry barriers. As we outline when we took over in the digital area, we have three ways to look at how we drive this digital offering. In some cases, we are co-creating because we think that we are not a tech company. The best example is the one of Adia where we have the payroll knowledge, we have the customer and the candidate knowledge, but we are pondering with a global giant like Infosys to really be able to get their knowledge on technology but also to be able to scale up an internationalized [ph] size(20:31). So, that's one way to look at this co-creation.

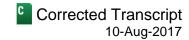
Second is partnership. The best example is what we do with Mya. Mya is the proprietary owner of the technology of the algorithm and so on, but they are missing what we have which is somehow the entry barrier or the competitive advantage is the data, is the all of this technology. And by partnering with them in the kind of exclusivity agreement, we are combining the competitive advantage of both and creating some kind of entry barriers. And in some cases, yeah, we will develop other kind of innovation. But as said, we don't see ourselves as a tech company. And we think that by combining our expertise in the human resources with the expertise of tech companies, we create competitive advantage, and we create some entry barriers.

#### Toby W. Reeks

Analyst, Morgan Stanley & Co. International Plc

Okay. So, it's fair to say that some of the traditional barriers [ph] of that (21:47) coming down. But you think that when you enter into this partnership, because you get additional skills brought to the table and additional ways of

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going to the market that you think you can actually build up some barriers to entry in those specific models. Is that the right way to think about it?

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Α

It's the right way to think about it, yes.

Toby W. Reeks

Analyst, Morgan Stanley & Co. International Plc

Okay. Thank you very much.

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

Hans Pluijgers

Head of Research, Kepler Cheuvreux SA (Netherlands)

Q

Yes. Two questions from my side. First of all, on the U.S., yeah, there, you've seen some slowdown compared to Q1. Could you maybe elaborate a little bit on what you precisely are seeing and what you believe the reason is for that and also, of course, what additional measures you are taking? Could you give some color on that?

And coming back on digitalization with respect to Mya, as I understand that, well, besides using it internally, you're also planning to sell it externally. So, that would maybe result a little bit intermediation. Could you give, let's say, some color on how you see, let's say, business model, pricing, that kind of things? So how you see that structured. And will it be linked then purely to Adecco database, or can the client use it anywhere he wants?

Alain Dehaze





Mya is indeed embedded in our systems but not only with our – in our applicant tracking system, [indiscernible] (23:14), that's it's for services – for servicing our customers. And thanks to this chatbot, we can screen a large number of applicants in a automatic way. So, it means that for our recruiter, we are really saving time and we are increasing the efficiency and the productivity of our recruiter because they are getting somehow prescreened candidates.

And I don't know if it is answering exactly your question, Hans, but for us it is enhancing the productivity of our recruiter, increasing their customer-facing and candidate-facing rather than fully disintermediating one process.

Hans Pluigers

Head of Research, Kepler Cheuvreux SA (Netherlands)

Okay. So, you're not selling, let's say, the knowledge and the system to clients, but you're linking the clients for the system.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

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No. We are using the clients to better serve the customers and the candidates. That's how we use it.

Hans Pluijgers

Head of Research, Kepler Cheuvreux SA (Netherlands)

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Okay.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

A

And we see that the candidate satisfaction and the customer satisfaction, thanks to this, the use of this technology is increasing.

#### Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG



Maybe some comments on the U.S. I think we saw same softness in the General Staffing business which was, if you look trading days, just down minus 4%. That is concentrated around a few customers and clients and we are working under the new leadership to drive with our segmentation strategy to drive new clients wins in different segments of the markets. Where we're implementing that, we're seeing the crowd follow. But it will take us a few quarters [ph] the data (25:18) spreads around the U.S. because it's a big market to get that concentration away from these large customers. But the regions where we've implemented it, it's making progress.

We're pleased in the U.S. with the permanent recruiting. That was up 10% and that was both, good in General Staffing as well as in Professional Staffing.

And last but not the least, the Professional Staffing, if you look at the market which is mature, a good quarter, we had [ph] other growth, we're given – (25:49) where we see the market and what we have delivered. And especially with the margin we delivered on that which is benefited by some of the reorganization changes we implemented in the second half, so both good growth and good margin and we're working there to get the growth back in General Staffing.

#### Hans Pluijgers

Head of Research, Kepler Cheuvreux SA (Netherlands)



Maybe one follow-up to be clear on the U.S., the segmentation. Do you mean that several clients has to be moved but they're moving to in-house and you're now trying also to, let's say, to step in with in-house in those business clients? Is that the main development you're seeing now?

#### Alain Dehaze

Chief Executive Officer, Adecco Group AG



Yes. Segmentation is a kind of double movement, Hans. It's on one hand putting our dedicated operating model in an on-site structure and framework. And on the other hand, by doing this, we free up time forward for the branches to focus commercially on the small- and medium-enterprise customer target group. So, thanks to the segmentation, we have, let's say, double advantage and both benefit, both on the on-site customers and both on the small- and medium-enterprise because we have two different operating models that we can then fully deploy and every then has only focus on one operating model.

#### Hans Pluigers

Head of Research, Kepler Cheuvreux SA (Netherlands)



Okay. Thanks.

#### Alain Dehaze

Chief Executive Officer, Adecco Group AG



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You're welcome, Hans.

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

#### Alain-Sebastian Oberhuber

Analyst, MainFirst Schweiz AG

Could you

Yes. Good morning. Alain Oberhuber, MainFirst. I have two questions. The first is regarding Germany. Could you – or more the Germany, Austria and Switzerland business, but I'm more interested in Germany. Could you give us a little bit more insight what was development, and was it also negative as the region, let's say? And if so, what we could expect to go on?

The second is regarding the U.S., coming back again. Did you lose market share in the General Staffing, and why are you so confident to be back in Q3 in General Staffing in the U.S.?

#### Alain Dehaze

Chief Executive Officer, Adecco Group AG



Okay. So, regarding the region DACH, and more specifically, Germany, first of all, we have three different businesses, and we had good growth in Germany with our professional staffing activities. We had a double-digit growth of the top line, and also in the perm. In the perm, we have 30% gross revenues in the second quarter in Germany. We have also – on the operating side, we have improved our sickness or bench versus the first quarter. So, there, we are progressing well.

Where we are today suffering on the top line is in the General Staffing, the brands Tuja and Adecco. And we are suffering based on two elements. First, the impact of a couple of specific client exposure in the automotive. We had one customer, we told you that that's having reduced activity and the other one having hired our temps. That's point one.

And second, as you know, Tuja and Adecco are respectively numbers six and seven, and we are building the number two of the German market by combining the operations of Tuja and Adecco. And by doing this combination, yeah it has short-terms implications, short-terms, I would say, pains, but we are convinced that it is for long-term gains. And this explains for the General Staffing that, let's say, the lack of top line growth we have today.

Now, coming to your question regarding the U.S. and more specifically in General Staffing because that's where we have this minus 4%, it's related to customer events. Yes, we lost some customers. And, you know in the U.S., it's a large account portfolio mainly a decline in technology and consumer goods. And like Hans was saying, we are putting, let's say, a recipe also there at work since the arrival of Federico Vione, we put at work this segmentation, so splitting onsite from the small- and medium-network focus area, and we are also putting at work commercial intensity. And we are confident that in the quarters to come, this situation will really improve.

#### Alain-Sebastian Oberhuber

Analyst, MainFirst Schweiz AG

Thank you very much. Just an add-on question on it. The market in General Staffing in U.S., was it flat, so you lost about 4% market share in Q2?

#### Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG



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I think if you look at where the market is, so the market is flattish. But if you look also at our peers, we're somewhere in the middle. We need to drive our relative market share by putting the things Alain said at work, is the segmentation strategy with the new management, and we do know that in parts where we're already doing it, that the growth is following. We just need to spread it around.

And I think what is important to mention here in all the markets where we have that already, you see both between our sales and profitability that these things are much better. So, we're very confident by the initial results in that. We keep working on all that that the growth will follow.

Alain-Sebastian Oberhuber Analyst, MainFirst Schweiz AG	Q
Thank you very much.	
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
Thank you, Alain.	
Operator: The next question comes from Matthew Lloyd, HSBC. P	lease go ahead.
Operator: The next question comes from Matthew Lloyd, HSBC. P  Alain Dehaze  Chief Executive Officer, Adecco Group AG	lease go ahead.
Alain Dehaze	lease go ahead.

Good morning, gentlemen. I'll try and stick to two. The first one, could you just explain to us, because if I'm honest, I'm not sure I 100% understand why it is that the working day adjustment, the bank holiday adjustment is bigger for you than it appears to be for peers in Germany? That's question – if you know, is it an accounting issue, is it to do with the way you accrue or something like that?

And the second question, how many customers have you lost to an Internet interloper competitor?

#### Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

A

Let me start with the accounting mumbo jumbo. It's indeed hard for anybody – I came from outside in to follow it. We take the days as they come. So, we don't accrue. That's U.S. GAAP. Some of our peers need to comment on how they do it. But from what I understand, but you would need to ask them, they smoothen it more but you can't fully do it. So, it's somewhere in the middle, that's why you see with us the biggest impact.

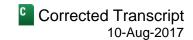
Hence it's important to look at the first half results because it takes away the accounting stuff and if you take it away in the first half, what is important to remember that we are making a 20 basis points improvement in our margin. We have driven strong productivity and we're investing to make sure we don't ever have to answer your second question.

Matthew Lloyd

Analyst, HSBC Bank Plc



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Thank you.

#### Alain Dehaze

Chief Executive Officer, Adecco Group AG

A

So, Matthew, your second question is an interesting question but I must say that today it is, for us, impossible to just to know and just to track which customer would have left us for a full Internet solution. But I can tell you that for sure at large customer we would know it, but I don't know anyone who has left us for another kind of solution. Small and medium, yeah, it could be because you have this online digital staffing platform and we see it, that's what exactly we are aiming at with our platform Adia.

We were not really present in the events and hospitality sector because it is short-term assignment. It was for us difficult to tackle this market with the profitability target we have. Now, thanks to this Adia platform, we are able to tackle the new segment which for us is offering new opportunities. But that's only the answer I can give you today, Matthew.

#### Matthew Lloyd

Analyst, HSBC Bank Plc

Okay. So, if I can summarize, the barriers to entry has tumbled so far that you are unaware of losing a single customer as a result. And most of your new ventures are to move into an area where you suspect clients haven't been using you anyway.

#### Alain Dehaze

Chief Executive Officer, Adecco Group AG



I think that's too black and white because, yes, Adia, it's a platform allowing us to penetrate new market segment we are not in. But if you look, for example, at Mya, yeah, we are also taking initiatives to save time, to increase our productivity or efficiency. So, I said, it's both. So, we are using technology to both be disruptive going into new field and also increase our productivity, efficiency and make savings.

#### Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG



And that, I think, is opportunity for us because if you look – this is a way where we see the opportunity to drive market share with that approach because what we bring together is the better technology. We're also managing the flexible solutions and we see [ph] that (36:32). That's why the partnership with Mya, they also really want to work with us because they see that that combination is just a better formula to go to market because we manage the people as well. There is more to be done. And with that, I think because of our size, we can drive skill into those investments what local players can't do. We have access to partnerships which are quite unique and with the best in the market because they prefer to work with global leaders like us.

#### Matthew Lloyd

Analyst, HSBC Bank Plc



Thank you very much.

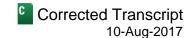
#### Alain Dehaze

Chief Executive Officer, Adecco Group AG

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You're welcome, Matthew.

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**Operator**: The next question comes from Michael Foeth, Vontobel. Please go ahead.

Michael Foeth

Analyst, Bank Vontobel AG (Research Firm)

Yes. Good morning, gentlemen. Just two questions.

The first one is just a clarification on Mya Systems. Do I understand correctly that this sort of platform or hiring process can be applied to any customer and any industry that you're into, or is it specifically targeted at a certain type of customer or industry, if you could clarify that?

And the second question would be, if you could give some more color first on the strengths – what drove the strength in Benelux, in particular, which customer segment and which industries, and also in Japan, that would be interesting. Thank you.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Okay. So, on Mya, as said, it's a combination of an algorithm with data. But in order that the algorithm, the chat bot, is functioning well, the algorithm needs data, and a lot of data. That's why a lot of people are saying, the [ph] oil (38:27) of the artificial intelligence is the data. And to make it work, you need a lot of data.

Why do I say this? Because you can implement such a solution at every kind of customers, provided that you have enough data point for the profile you are looking for. So, it means that we are starting with – we have started with customers where we have quite a significant amount of recruitment of the same profile, because then we have a lot of data points. And successively, we will extend and expand the number of profile we can recruit, thanks to this technology. I do hope I am clear.

Michael Foeth

Analyst, Bank Vontobel AG (Research Firm)

Yeah. Could you maybe give an example of where specifically you think it's very well suited?

Alain Dehaze

Chief Executive Officer, Adecco Group AG

If you take for example the logistics and you take an example of very large logistic companies looking for order pickers. And this very large global companies are looking for thousands and thousands of order pickers. This profile of order pickers is somehow very structured. And once you have all these skills, profile competencies translated in data points, in information for the algorithm, then you can put this algorithm at work. If you are looking for a very particular profile, a very particular candidate, and you don't have in your data point regarding this candidate, then it is not interesting to put this technology at work.

Michael Foeth

Analyst, Bank Vontobel AG (Research Firm)

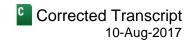
Okay. That's clear. Thank you.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

You're welcome.

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#### Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

If we turn to the growth starting with the Benelux and the Nordics, we had a good quarter. But from a revenue point of view as well, making progress on the margin. If you break it down, we had 13% growth in the Benelux, and that was quite broad-based across multiple sectors. And it's always important to mention that we are quite diversified across the sectors of the economies. So, it's not one playing out. In the Netherlands, we gained some clients in logistics and automotive. So, good growth into the Benelux.

If you look at the Nordics, we had 7% growth, which is also good, we're also driving there the segmentation strategy and it's across a multiple of sectors. So, we're pleased with the progress we're making in that region.

Michael Foeth Analyst, Bank Vontobel AG (Research Firm)	C
And Japan just maybe.	
Hans Ploos van Amstel Chief Financial Officer. Adecco Group AG	A

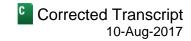
Sorry. Thanks for reminding me. I forgot about Japan. Japan we had 3% growth. The growth driver has been Professional Staffing [ph] legal (41:37) in Japan, that's around 26% of our business. We continued to drive good growth in Professional Staffing. General Staffing was up 2%. Permanent recruiting up 26%. Margin was up 20 basis points.

So, overall, pleased with the results there and it's important to mention on Japan that if we look at segmentation, which we have been talked in the U.S., small and medium grew double-digit. So, you see that also in Japan, we're focused to drive the diversification of the client mix, so that we not only have a diversification of sector, but also more diversified, of course, the different client segments and going in that small and medium part of the economy.

Michael Foeth Analyst, Bank Vontobel AG (Research Firm)	Q	
Thank you.		
Alain Dehaze Chief Executive Officer, Adecco Group AG	A	
Thank you, Michael.		
Operator: Next question comes from Andy Grobler, Credit Suisse. Please go ahead.		
Andy Grobler Analyst, Credit Suisse Securities (Europe) Ltd.	Q	

Hi. Good morning. Just a couple of questions on France, if I may. Within France, growth was good, but it did seem to lag some of your bigger competitors. Could you just talk through why you think that was the case? And then secondly, just a follow-up on CICE, I know there's lots of uncertainties at this point, but if it does move from being a tax credit to a normal subsidy, what would the impact be all else being equal on your profitability? Thank you.

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#### Alain Dehaze

Chief Executive Officer, Adecco Group AG

Yes. First of all, about the top line performance in France, we had a good growth momentum in France. We have improved our top line from 8% in the first quarter to 9% in the second quarter. Yes, the top line is slightly behind the market, and we see there are three reasons.

First is that we are really focusing on value, and we have a clear value strategy. It means that we are very, very disciplined around pricing. We have also put the segmentation at play. So, we are not shaving any top line, and somehow you see that also in the profitability we are reaching in France. So, clear value strategy.

Second, we are also focusing on driving productivity and sometimes driving productivity before adding head count. You had seen the overall figures of the group, but that's the same situation in France. And third, we are underexposed in France in some of the strongest growing markets. I think the example of the food, we are underrepresented. And food as an example is one of the most – that is growing and is also one of the most price sensitive. So, these explain why we are lagging behind the market, but I can assure you that we are working on that, but always having in mind this – the value strategy.

Now, regarding the CICE and elaborating on what Hans had already said, first, the government has confirmed that it would not change the CICE before 2019. I think we have still to wait what exactly it will be because we are 18 months from 2019. It can happen a lot. And in the election period, they said that – Macron said that he would decrease the tax credit, but at the same time, he would reduce the social charges level and the corporate tax rates.

Now, coming to your question, potential impact on us, you know that this service is existing since no more than the meantime five years, and it has been taken into account in the yearly negotiation with all – key customers. So, difficult to anticipate what could happen in 18 months from now, but let's say, we will continue to defend our pricing. You know that we are very disciplined on the pricing. We will continue to defend the quality of our service towards candidate and clients, and somehow this CICE has been already taken into account in the pricing since more than five years.

#### Andy Grobler

Analyst, Credit Suisse Securities (Europe) Ltd.

And just one follow-up, if I may. If it becomes a normal subsidy, then that would be taxable. Do you have anything that can help offset the impact of that relative to where you are now?

#### Alain Dehaze

Chief Executive Officer, Adecco Group AG

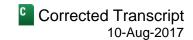
The commitment of the Macron and the government is at least to outbalance the one with the other. So, it should be in a way or another compensated, because let's not forget the purpose of these measures is to reinforce the attractiveness and the competitiveness of the French market. So it should be for a better rather than worse because they want to further increase the competitiveness and the attractiveness of the market in order to get the investment.

#### Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

Yes. And to follow up also, Hans here, on the taxes, social security would have an impact on the corporate tax, but there's also these talks that they are taking down the corporate tax rate. So, if you summarize it all till 2019

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here, we're in a good - no change. Things may change, I think what we're keep trying to point out is that whatever will be down will need to be good for the employment, for the economy, and with that for the businesses. So, we're relatively confident that with all the changes that we will continue to run a good business in France. But it's true [ph] there's a lot in the soup (47:56), so that makes it a little complex.

Andy Grobler Analyst, Credit Suisse Securities (Europe) Ltd.	Q
Okay. Thank you very much.	
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
You're welcome, Andy.	
Operator: The next question comes from Tom Sykes from Deutsch	e Bank. Please go ahead.
Tom Sykes Analyst, Deutsche Bank AG	Q
Yeah. Morning, everybody.	
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
Morning, Tom.	
Tom Sykes Analyst, Deutsche Bank AG	Q
Morning. Just on your net head count changes, could you maybe just been adding head count and where you've been taking it out, please France together, what degree of operational leverage do you think the	? And when you consider Italy, Iberia and

#### Alain Dehaze

Chief Executive Officer, Adecco Group AG

Regarding Italy, Iberia and France, you see - let's start with Italy. As you see, we are growing since many, many, many quarters at a rate of more than 20% and not only in the General Staffing but also in the perm business. We had 30% growth this quarter again in the perm business in Italy, and the same way with Spain. So, it's growth after growth. France also is now growing at a level of 9%.

So, coming to your questions, you know that productivity has also some limit. If you look at the Q2, we had an increase of 1% of FTE, 2% of SG&A, and 6% growth of the revenues. So, you see that we have a clear focus on productivity.

#### Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

Yeah. If you – without going into too much disclosure and detail on the head count, you can imagine if we look at the head count increases, we have increased everywhere where the growth is to follow the growth. We have had the benefit in North America of the reorganization of last year. So, our productivity this quarter was helped by

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[indiscernible] (50:13) low-single digit reduction in the head count. And in the UK, we can imagine we have also done some things.

So, the contraction of head count is predominantly in North America and the UK, and that is helping also the overall productivity, and we have delivered – yeah, we followed the growth. And as we said, if you look at France, we're continuously more of the – between our growth [indiscernible] (50:40) that we keep that balance right. And that's constantly on the radar screen.

You said Italy, Italy we grow, good conversion also in Spain, if you see between the revenue growth and the head count we added, continued good operating leverage. And what we will show you more structurally when we have the Investor Day is our productivity initiatives here, how we find new ways to keep driving, again, some objectives to improve our margin leadership which is important and that we will talk further at the Investor Day.

Tom Sykes

Analyst, Deutsche Bank AG

Okay. I actually did want to ask on that. Is it still plausible that you could make a step change in your cost structure, or should we be thinking more along and sort of a one-off type announcement and target, or should we be thinking about this as more ongoing and evolutionary, please?

Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

I think driving growth you do every quarter and I think driving productivity you do every quarter. So, there are sometimes have some things which more of a step change. But it should be constant that we are now starting in the pilot countries that we continuously do blend in new ways to drive productivity to constantly improve our margin. That won't go well on one quarter by quarter, but we will have phased new things into the business to continuously deliver our margin leadership. And again, I would love to talk more about this, but we will do this [ph] somewhere (52:19) in the Investor Day because I think we're very excited about this.

Tom Sykes

Analyst, Deutsche Bank AG

Okay. Thank you very much.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, Tom.

**Operator:** [Operator Instructions] The next question comes from George Gregory, Exane BNP Paribas. Please go ahead.

George Gregory

Analyst, Exane Ltd.

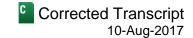
Good morning. Just one from me, please. The customer losses that you referenced in North America, I wonder if you could elaborate a bit on the reasons behind them. Was it price, anything or any other drivers there? Thanks.

Alain Dehaze

Chief Executive Officer, Adecco Group AG



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For competitive reason, I don't want to elaborate all the details. Yet, big customers in the U.S. are always competitive. So, it's a combination of pricing expectations and so on. But I don't want to elaborate on this.

George Gregory

Analyst, Exane Ltd.

Okay. All right. Thanks.

Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

I wouldn't read it's just there are a few large accounts which are hitting in the quarter that's why we need to recover and drive more segmentation. So, that's the thing [indiscernible] (53:32) just have a bigger impact, and it's not different.

George Gregory

Analyst, Exane Ltd.

#### Alain Dehaze

Alain Dehaze

Thank you.

Thanks.

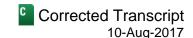
Chief Executive Officer, Adecco Group AG

Chief Executive Officer, Adecco Group AG

If there are no more question, let's close the call.

So, ladies and gentlemen, thank you for your interest and thank you for your questions. We look forward to meeting some of you over the coming days on our Roadshow. And otherwise, we hope to see you at our Capital Markets Day on September 22 in London or to hear you again on the third quarter call, which will take place on November 7. Bye-bye.

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