07-May-2019

Adecco Group AG (ADEN.CH)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Q1 Results 2019 Analyst Call and Webcast. I'm Alessandro, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. The presentation will be followed by a Q&A session. [Operator Instructions] The conference must not be recorded for publication or broadcast.

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

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

Good morning, everyone, and welcome to Adecco Group's Q1 2019 results conference call. Today, I'm joined by Alain Dehaze, Group CEO; and Hans Ploos van Amstel, Group CFO. Before we begin, please review the disclaimer on page 2 regarding forward-looking statements that may be included in this presentation.

So on today's agenda, Alain will give a brief intro and the highlights of the quarter. Hans will provide some additional color on our financial performance. Then, Alain will describe some of the progress being made on our transformation and innovation agendas before we open the lines for your Q&A.

With that, I hand over to Alain.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, Nick, and good morning, ladies and gentlemen. Welcome to first quarter results investor call. I will start immediately on the slide 5 with the key highlights. In the first quarter, we saw the Perform, Transform, and Innovate strategy continuing to deliver results with good progress on all three pillars.

And although our revenue declined with 2% trading days adjusted, slightly below Q4, the trend was stable through the quarter and into the second quarter, providing some evidence that the negative trend seen in 2018 is bottoming out.

Despite the negative top line trend, we improved our EBITA margin by 20 basis points year-on-year and grew underlying operating profit by 8% organically. This was driven by further strong progress with GrowTogether and another quarter of gross margin improvement, supported by better business mix and positive pricing development. We will deep dive into GrowTogether later, so I won't go into the details here, but we are very pleased with the progress so far and we are on track to deliver additional €70 million savings that we targeted in 2019.

On our Innovate agenda, we also had good traction. General Assembly solutions are becoming more integrated with older businesses, opening many opportunities to enhance our customer value proposition, cross-sell and leverage General Assembly talented graduates in our recruitment business. And Vettery and Adia are confirming the strength of their respective business models with very high levels of customer satisfaction and retention. So, lots of promising opportunities for the future.

And with this, I hand over to Hans who will discuss the financial performance in the first quarter.

Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

Thanks, Alain. We now will discuss the financial performance in more detail starting with revenue. Revenue was down 2% in the first quarter. Europe was minus 3%, which is similar to what we saw in the fourth quarter. This confirms that the growth trend in Europe is stabilizing. Remember that we had very strong growth in Southern Europe in Q1 of last year.

North America revenue declined 3%. While we expected a slowdown in growth in General Staffing due to the strong seasonal demand in Q4, the Professional Staffing business was below expectations. We're pleased with the acceleration of growth in Japan and the Rest of World.

Looking at the country results in more detail on slide 8. France was stable versus Q4 and broadly in line with the market on the back of very strong growth in the first quarter of last year. In North America and UK General Staffing, we saw a 2% growth. In North America and UK Professional Staffing, revenue was mixed. Continued excellent results in our Soliant healthcare business and good results in finance and office. However, IT continued to decline.

In the past, the focus was mainly on the enterprise client side where the trend is moving towards more offshore delivery. We're developing those capabilities and are also repositioning the business more towards retail and higher value-added solutions. U.S. Professional Staffing was also impacted by a decline in the legal business. We do a lot of project-based work in legal and then a high concentration of large contracts that ended in the first quarter.

In Germany, Switzerland, the decline was broadly in line with the markets and with Q4 2018. Germany continues to be a challenging market impacted by the slowdown in automotive and by the regulation changes that were introduced in the fourth quarter. In Italy, our revenue growth slowed along with the market slowdown. Remember, we were growing 19% last year.

We're seeing continued strong growth in Japan. We're building the market share here. Our VSN Professional Staffing business continues to perform very strongly supported by its differentiated offering.

Iberia results of minus 4% are stable versus Q4, against the tough comparison base after very strong growth in Q1 last year. LHH was stable, continuing to outperform the peers. Counter-cyclical Career Transition remained [ph] mid-single digit (00:06:28) negative offset by strong growth coming from Talent Development.

Turning to gross margin. The reported gross margin increased by a full 100 basis points. M&A had a positive 30 basis point impact driven by General Assembly and Vettery, both are high value, high gross margin businesses strengthening our customer offering. Currency had a positive 10 basis point impact. As a result, the organic gross margin was up 60 basis points.

Permanent recruiting had a positive 20 basis point impact, leaving a 40 basis point improvement in the Temp gross margin. The 40 basis point increase in the Temp gross margin comes from: first, we had a positive impact from favorable financial bank holidays; second, we had another 10 basis point benefit as a reversal of the negative impact from the high sickness rate and strikes in Germany last year. This leaves a 20 basis point positive impact from pricing and mix and confirms that our actions to strengthen the Temp gross margins are paying off, including improved pricing discipline and rolling out new tools.

Let's now look at the EBITA margin. Our EBITA margin was up 20 basis points in total in the first quarter. The investments in the New Ventures have a negative 20 basis points impact. Germany impacts the group by 10 basis points. Remember, we had a 20 basis points help in the quarter for more favorable bank holidays and the reversal of the negative impact from strikes and higher sickness rates last year. This means that the underlying EBITA margin improved by 30 basis points, even though the revenue declined. This confirms that GrowTogether is fueling the margin. The continued work on pricing and mix is paying off.

In terms of profitability by country, France's margin strengthened further by 40 basis points to 5.6%. The improvement was driven by a combination of our pricing actions, diversifying the business mix, and the productivity improvements from the GrowTogether initiative. The North America and UK General Staffing margin improvement was driven by a more favorable gross margin and the productivity improvements from GrowTogether.

In North America and UK Professional Staffing, our margin was down 30 basis points because of the investments in Vettery. The core gross margin slightly improved, offsetting the lower revenue with higher productivity and better mix. The EBITA margin in Germany, Austria and Switzerland of 1.6% improved because of the benefits of the more favorable bank holidays. Excluding this, the margin would have been down year-on-year because of the negative operating leverage from the revenue decline in Germany.

In Career Transition & Talent Development, the margin was impacted by the investments in General Assembly. The LHH margin remains strong. We delivered a strong improvement in SG&A productivity. SG&A was down 1% organically, driven by a 2% reduction in the number of FTEs. Organically, we improved the conversion ratio from gross profit to EBITDA by 150 basis points. And our total conversion ratio remains ahead of the major peers, even while we're investing in the new digital ventures.

Later in the presentation, we will show an update on our GrowTogether initiative, which will continue to drive the margin. Cash flow was strong at €181 million benefiting from a higher working capital inflow and a replacement of the CICE in France. Days sales outstanding are stable at 53 days. Net debt to EBITDA is at 0.9 times at the end of Q1, confirming the strong balance sheet.

Remember, the lease account changes impact us differently to some of our European peers, because we report [ph] under (00:11:23) U.S. GAAP. With U.S. GAAP, there is no impact on the income statement from the lease accounting. Also, there is no impact on the way we look at our net debt or leverage ratio. It means that we do not see any change to our EBITDA margins from the lease accounting changes unlike IFRS reporters, which get a benefit.

I will now provide you some indications on the outlook. The revenue growth in March and April was in line with Q1 2019. The Q2 gross margin will be negatively impacted by 10 basis points due to the timing of bank holidays. The replacement of the CICE in France has a negative impact on the cash conversion in Q2, while it's broadly neutral for the full year.

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

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, Hans. And let's start with Transformation and with GrowTogether. GrowTogether is about strengthening the value proposition to drive sustained profitable growth. It is about increasing productivity, while also improving the quality of service we provide to our customers.

And the program GrowTogether relies on three foundations. First, providing service excellence by putting our customers at the heart of all what we do. Second, re-engineering all processes by applying the Lean manufacturing across all branches and shared service centers. And third, leveraging technology, so our colleagues can focus on what they are passionate about, meaning helping more candidates to find jobs and develop their careers.

So, let's go now into more details on each of those blocks. GrowTogether starts with the customer centricity and that's why we are now bringing the Net Promoter Score to the next level in all businesses, where before we measured only customer satisfaction [ph] in general (00:13:40), we are now able to measure [ph] all clients' or candidates' and associates' (00:13:44) satisfaction at every step of their journey with us.

Also, we know how we compare with all competitors, so we can really drive better and differentiated services. And all this data is key. It allow us to know what good looks like and what an outstanding experience for our customers means.

As an example, on the candidate management side, every time we fill a position, we have to reject candidates that were not right or that they didn't have the right fit for the role. Now, ensuring that they have a good experience, despite being rejected is key as they might be the perfect fit for future role.

Also, providing timely feedback is important, but we learnt that [ph] all (00:14:35) people do not always find time to do so. So, that's why we are integrating an NPS dashboard into the new front office tools to show our colleagues what concrete actions need to be put in place based on specific NPS results.

And now, NPS activation and measurement is life in [ph] all of our (00:14:58) key countries. And you have seen that we have achieved our goals in 2018 and we are targeting further improvement across all our business in 2019.

The second building block of GrowTogether is around process reengineering, is around applying Lean manufacturing principles to all businesses. And we see great results every time we deploy the approach. We did in the U.S., in UK, in Japan to name a few, be it in the front, middle or back office. The question is, why? The answer on this why is, first, because we optimize the way we work by identifying opportunities to improve and automate.

Second, it allows our people to fully benefit from the new technology that we are deploying. And finally, it improves collaboration between the teams through constant alignment and communication flows. Around 25% of our people have now been trained in Lean and we are accelerating the deployment in 2019.

Last but not least, leveraging new technology is a crucial part of GrowTogether. In the fourth quarter, we gave some great example of how technology is driving results in France and North America General Staffing. And you can see how that is driving the results again in the first quarter. And we will provide continued updates in the quarters to come.

GrowTogether is on track to deliver on our targets in 2019 and 2020. We are well on our way to achieve further €70 million of productivity savings in 2019 and add more value in the services we provide to [ph] all (00:16:51) clients and candidates. We are excited about what GrowTogether has delivered and what GrowTogether will continue to deliver.

Now, let's briefly touch on the final component of [ph] our (00:17:06) strategic agenda. Innovate. In the first quarter, we continued to make investment in all New Ventures, which are an important part of our growing ecosystem. With the ventures, we are broadening the services we provide to our customers and we are experimenting with innovative new models that open new segment of the market to us.

For example, Adia is indeed dropping a truly zero touch, end-to-end online staffing model. The highly efficient high customer satisfaction model is ideally suited for high-frequency and easy-to-verify roles. It is still early days, but we see big potential here.

Another example is Vettery. Vettery is really a new digital model for permanent recruitment, an online talent marketplace to help companies hire top-tech sales and finance talent. The business today is small, but growing fast, and its subscription model is very promising with high level of customer stickiness and revenue predictability. That is something quite unique in the recruitment industry.

The third example is General Assembly. And General Assembly is our most mature venture, and it is the one that is having the biggest impact on the rest of the Adecco Group. General Assembly is now becoming truly integrated within the group ecosystem. For example, during the first quarter, we saw significant business referrals from Adecco to General Assembly, supporting strong pipeline development in the business to business. We started to automatically onboard General Assembly graduates to the Vettery platform after course completion. This is providing a valuable source of talented candidates.

In Lee Hecht Harrison, we added the General Assembly online digital assessment and learning tools to its active placement platform, and we began to pilot upskilling associates with General Assembly [ph] to deploying to all clients through Modis. Here, (00:19:23) we see promising results, and we continue to invest as per our plan, so we can realize the full potential of [ph] our (00:19:33) ventures.

Coming now to the concluding messages. The first quarter was a quarter of good progress, even [ph] as (00:19:46) the external environment was difficult. Our Perform, Transform, Innovate strategy is delivering results. And we achieved a third quarter of underlying margin improvement driven by GrowTogether and progress we are making on improving our mix and with [ph] our (00:20:05) pricing strategy. And we continued to invest in our innovative new businesses, which we expect to be an important driver of future profitable growth.

Looking forward, while it is too early to expect a pickup in activity levels, we are pleased to see some of the signs of stability in Europe after the slowdown in 2018.

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

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from the line of Paul Sullivan with Barclays. Please go ahead.

Paul Sullivan
Analyst, Barclays Capital Securities Ltd.

Q

Yeah. Good morning, everybody. Just a few for me. Firstly, [ph] can you give (00:21:17) – the usual question on sort of SG&A and gross margin guidance and the moving parts into the second quarter, that would be helpful. And then, following up, given the first quarter beat, how confident are you of operating profit margin expansion for the full year on the basis that we don't see any further revenue deterioration?

And then, finally, are you able to give us any sense of the run rate of revenues coming from new digital ventures now? And what was your organic growth – what's the organic growth that we're seeing within General Assembly? Thank you.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Yeah. Shall I start, Paul, with the Q2, because I think it's good we give you a little bit more color on that and that will lead us into also the full year. I think the gross margin will have some changes for a couple of reasons in Q2.

One, the bank holidays will be negative, which will be 10 basis points negative for Q2 and remember that was a positive on Q1. [ph] M&A on (00:22:26) gross margin will have a slightly less positive [ph] or plus 30, to plus 20 (00:22:32) because Vettery is coming into the numbers.

I would assume that FX or exchange rates will be about the same at plus 10 basis points. And then, this quarter, we had this unusual base effect helping us because of that sickness rate and strikes in Q1 of last year.

To sum that all up, because it's a lot, these underlying items will be around plus 20 bps in Q2 versus 60 bps in Q1. Then you add your usual dynamics on the perm business, on LHH, the temp price/mix and I expect the temp price/mix to also be positive into the second quarter.

Therefore, I mean, if you add it all up, I would take in total that the gross margin would be up around 50 basis points year on year. So, if you get all these changes to [ph] round (00:23:29) that number, that's something we look at.

If we look at the SG&A, we continue to invest in the digital ventures, while we get the benefits from GrowTogether. Germany will still impact the results. I think also the Professional Staffing in the U.S. will be with us in the second quarter.

So in total, we would say Q2 SG&A to be up, including the forex of around 3% sequentially versus Q1. So, I think that gives you enough to model the second quarter. First quarter was strong, so that will help for sure the year that we would want to [indiscernible] (00:24:19) for the year, because we have certain visibility, right, and that's, again, a few quarters before we have – get the whole year to – it's a good start of the year and let's leave it at that and we want to see how we go into the second half.

On the run rate of the ventures, and Alain might want to give a little bit more color, but the good news is that General Assembly was small 20% up, so good growth and Vettery doubled and Alain can give a little bit more color, I think, why we're so happy with the progress we're making on the digital ventures.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

So we have what we call the New Ventures and we have four New Ventures – three, which are typically digital and one, I would say, digital linked, but not digital platform. So, General Assembly, you have heard the figures Hans as given. You have also given – you have also heard about some examples of the synergies we are now playing out with General Assembly inside the ecosystem of the group.

Then we have the – then we are entering the digital platform. The second one is Vettery. And there, we are very really pleased with the progress being made with a very strong growth, with high customer renewal rates, which is very important in a subscription model and we have high NPS on customer and candidate side, so – with also unit economics being very compelling at scale.

Regarding Adia, which is probably less mature than, for sure, General Assembly and Vettery, in Adia, we have started in Switzerland. This is the most established market for us, very good expansion of the footprint. Strong revenue momentum last year, three-digits growth. Also, what the good news is that the gross margin is ahead of our initial expectation. So, they are also very positive. We have entered now the U.S. market and in the U.S. market, we are really developing our solution as an end-to-end, zero-touch staffing solution, so that we are really different as a solution.

And last but not least, we have, I would say, the youngest one is YOSS, the platform for the freelancers that we have first started in France and now, we continue the development in the U.S. It's still early days, but we have very good progress on the product. And we see there a significant market potential, so to be continued and we will inform regularly about how we are developing in these New Ventures.

Paul Sullivan
Analyst, Barclays Capital Securities Ltd.

Q

Great. Thank you very much.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

You're welcome, Paul.

Operator: The next question comes from Bilal Aziz with UBS. Please go ahead.

Bilal Aziz
Analyst, UBS Ltd.

Q

Good morning, everyone. And three from my side, please. And within the gross margin, the 20 bps price mix improvement that you have seen, can you please help and try and break out what you [ph] view as (00:27:37) specific pricing tool that you have implemented versus broader market and labor scarcity?

And secondly, in Germany, can you give us an update of where the integration with [indiscernible] (00:27:48) now tracking? I think it was this time last year [ph] where (00:27:50) you merged everything together.

And finally, within General Assembly, given the fact that you're still growing double digit and is loss-making the best way to think about that for the full year, or do you expect to break even by the fourth quarter? Thank you.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Yeah. Let me start with the pricing and mix. I might give you first the disclaimer, because first, the plus 20 is strong. I think recall, we're coming from a minus 30 over a longer period to stability last year and now, it's positive. And I think what we're doing on the pricing tools, strengthening further the pricing discipline and the combination of the market, I think the market is favorable. It is all coming together. So, that's the positive news.

Now, you asked me to break it down, and that's [indiscernible] (00:28:45) my disclaimer. If you have a good soup, there's a lot of ingredients into the soup, but it's not always as easy to get out of the soup, right, which ingredients drove the taste, It's the combination of the flavors. And we have made some new tools in there, but I think the market is helping because the candidate scarcity is playing. But the new tools, we have new pricing tools there supported by [indiscernible] (00:29:14) artificial intelligence, we know much more where we can place the candidate. So that is really driving a sustained improvement in the gross margin and we should feel positive about that.

I start with GA [indiscernible] (00:29:30) Germany.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

No. Germany, I can do it.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Yeah, and then I go back to GA. Okay.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Yeah. And Vettery. Now, on Germany, as you know, I [ph] have taken (00:29:40) direct oversight. So, we are really taking this seriously. I'm spending quite a number of days every month there to make sure that our colleagues over there are getting the right experience we have in the group regarding this transformation. We are convinced we have put in place the right strategy by not only merging the two companies, but by putting the segmentation in place. So, it means that we have no dedicated go-to-market channels for the large with on-site, for the small and medium with the retail, this is now put in place.

For sure, the external environment in Germany is not an easy one, that the softening of the macro, you have the situation of the auto industry, and then you have the regulation that has been changed since October last year. And you see when you look at the results in the Q1, you see that our results are broadly in line with what the peer group is achieving in this market. So, it is about hardworking, diversifying the portfolio, we have done that in [ph] other (00:30:54) markets before, we will do that. It will take time. For sure, it will take time. And we are more looking at the second half of this year to see the first structural improvement.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Quickly coming back to the GA question, we are investing in GA and that is to support the growth. [ph] We're (00:31:15) also investing in how we do it better integrated with our business because there are great opportunities in the augmented staffing like we do in Japan. We're rolling it with customers. So, we will continue to invest in GA, because the need for retooling and reskilling is there with customers now and to grow that business now is very relevant for us for our future growth, it strengthen the gross margin, these type of businesses we want to add to the portfolio. And I think we continue to invest.

Bilal Aziz
Analyst, UBS Ltd.

Q

Good. Thank you very much.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

You're welcome, Bilal.

Operator: The next question comes from the line of Tom Sykes with Deutsche Bank. Please go ahead, sir.

Tom Sykes
Analyst, Deutsche Bank AG (UK)

Q

Yeah. Morning, everybody.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Morning, Tom.

Tom Sykes
Analyst, Deutsche Bank AG (UK)

Q

Just to go through your sort of medium-term views, please, on your U.S. and UK businesses. I mean, obviously, you pick out ex- Vettery, the Professionals business isn't necessarily seeing a declining margin. But, I mean, we're at multi-decade lows of unemployment, and your margin in the combined U.S. and UK business is still down on where it was four years ago. So, when will these businesses sort of turn the corner more and what's the main drag on profitability that you see in those businesses, please?

And then, just on your Perm business, am I right that the Perm business includes – [ph] or (00:32:58) you include your Temp to Perm conversions in your Perm revenues rather than your Temp revenues? So, just wondering at what growth rate the Temp to Perm conversions are growing up, please?

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

I can take this one quickly. In our Perm business, we include Temp to Perm provided that there has been a [ph] fee paid, if – you have (00:33:29) Temp to Perm, but without any fee and just – let's say we are getting our margin through the temporary contract. It's not accounted in the Perm business. So, in the Perm business, you have both the General Staffing and the Professional Staffing when we speak about the 5% growth.

Then on the medium term, U.S., UK – I think first of all, it is important to explain what did happen in this quarter in the U.S., because the decrease came from, let's say, for two-third can be explained by IT and one-third by legal. And for IT, it's not new for you. You know that we lost some – few large customers last year and that there is also a change in, I would say, a structural change in operating models that companies are doing more and more offshoring.

On all sides, we have to cope with this large contract decrease and we had also to cope with the strength of offshoring. In the meantime, we have set up also offshoring offerings that we are now proposing to our customers, but it will take some time to – let's say, to cope with this and this decrease. That's point one.

The second point is the legal business. We have a nice legal business in the U.S. And part of this business is about project, especially in forensic [ph] survey, Tom. And these projects are linked to big projects (00:35:19) when you have a forensic survey being done. And what we have seen in the first quarter is the end of a few large solution projects ending with the results you have seen.

Now, when you look I think midterm, I think whatever the countries, skilled people are in demand and it will continue. I think the demand [indiscernible] (00:35:51) for talent will continue going forward.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

That's why I think continuing to grow General Assembly is important, because the skill sets are not always available. [ph] The set is influenced before (00:36:04) – the skill imbalance is a [indiscernible] (00:36:09) skill imbalance. It's not quantity, [ph] not people who (00:36:13) want to work, it's getting the skills. And this is important for the growth also. Now, on the margin structure, I think it's important to remember, we can do that. [ph] You can't because we (00:36:25) report the [indiscernible] (00:36:24) structure.

But if I look at the competitive strength of our U.S. margin, it's good. We have a strong margin while we're making now the relevant investments for the future, not only with Vettery, but we're rolling out new technology. The productivity is improving. So, as Alain said, we need to get the growth back in the business by transforming the IT business which we're working on. But the margin is strong while we're making the right investments.

Tom Sykes
Analyst, Deutsche Bank AG (UK)

Q

Okay. And do you see any profit pools within that that you think are going to be – so, you've outlined some of the profit pools which [ph] run to (00:37:03) some degree of structural pressure and obviously, we're still down in absolute profit from where we were four years ago. Do you think there's any – well – but do you think your strategy of combining the Generalist and the Professional businesses is absolutely working? Because we've got four years and the EBIT down and your compound wage rate growth, you should have a better pricing environment in the U.S. You've already got some GrowTogether benefits, and yet the EBIT is down.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Yeah, I think if we look at – and let's do it business by business. Yes, the dedicated focus between General Staffing and Professional Staffing make sure that we focus on winning in both elements and different [ph] businesses, I recall, is (00:37:49) split about 50/50. In General Staffing, I must say we're making good progress. Sure, the margin, we are now making investments. The business is still competitive I would say, [ph] while the bill rates are improving, right, the mark-ups, it's (00:38:06) still a competitive business on the General Staffing business and we improved the margin by 40 basis points in Q1. So that's an improvement, while we invest in Professional Staffing, the margin [ph] also (00:38:19) – I think your question on the profit pools, I think IT as a profit pool is changing. Therefore, we're changing the business model. We're moving ahead. We're strengthening our offshore offering there, so there we get the cost to serve right on something which has become more competitive, that's the profit zone which is moving.

And the second one which is early days, so I want to [ph] keep in mind (00:38:45) all of us that in Japan, we're further along the augmented staffing, and we are starting some first pilots with Modis in the U.S. to combine [ph] an augmented staffing between (00:38:56) General Assembly and Modis.

So, we need to build these things. They haven't – they're not built in a week, that takes time, but we are reassured that if we look at the candidate scarcity, the new skill sets which are needed, that this is the model of the future.

Tom Sykes
Analyst, Deutsche Bank AG (UK)

Q

Okay, many thanks indeed for your answers. Thank you.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Thank you, Tom.

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

Anvesh Agrawal
Analyst, Morgan Stanley & Co. International Plc

Q

Hi. I got like one question really on CICE that you flagged that you expect some impact on cash conversion in Q2 and that is presumably you're not selling the receivables that you have on your balance sheet. I was just wondering what's the rationale behind that because you could have sold them this year and probably that could have supported further buybacks or what's the strategy behind keeping them on the balance sheet? Thank you.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Thank you. Good call out. What we have done and the rationale in a short answer and then I give the longer answer is we don't want the distortion in the cash flow profile over the years. And in the past, because CICE, there was a mismatch between the P&L and the cash flow because the cash flow came later, because of the matching we sold the receivable.

Now that the social security benefits are coming within the year, so there is a matching. We said we're not selling of the receivable because there is now a natural hedge with the cash flow and the P&L. So we get the usual €200 million, but we're not selling the receivable in Q2.

So in Q2, we're not selling the CICE which is around €200 million, and you will get the benefit of the €50 million. So on the year, it's going to be the same. If you have a plus €50 million in Q1, a negative €150 million in Q2, and then you have a plus 50/50, so it neutralizes roughly on the year. But because of the matching principal, we took that decision.

Anvesh Agrawal
Analyst, Morgan Stanley & Co. International Plc

Q

Yeah. And just on your point on distortion, because if you're not going to get that now, you'll get that distortion after two years when you get that last year receivable from the government directly. So why not sell it now and probably use that internally?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Good question. So the matching for us is the key principal. And we have good cash flow, good balance sheet. So if we have something in the pocket for a rainy day, it's also not a bad thing for you to know.

Anvesh Agrawal
Analyst, Morgan Stanley & Co. International Plc

Q

Right. And just a follow-up on the previous question on the IT in North America, can you just give the split of that business? How big it is of North American Professional business?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

That is 40% of the business.

Anvesh Agrawal
Analyst, Morgan Stanley & Co. International Plc

Q

Okay. Thank you.

Operator: The next question comes from the line of Michael Foeth with Vontobel. Please go ahead.

Michael Foeth
Analyst, Bank Vontobel AG (Research Firm)

Q

Yes. Good morning, gentlemen. Two questions from my side, both on Germany. Could you give us some more granularity on the market trends in Germany by industry, in particular, automotive, but also the other industries you were exposed to? That would be the first question.

And the second one relates to the margin in Germany. You said that actually, excluding the bank holiday impact, it would have been negative. Can you be a bit more specific? And the reason I'm asking this, I want to understand how your underlying profitability in Germany is developing and whether we can see any progress on the margin in Germany?

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

Okay. Good. I will start with giving some granularity about the segment by giving some indication. So what – where we see a double-digit decrease is it is in – especially in automotive, in manufacturing, in electronics, also retail we have a single-digit down. That's nearly how we say it. So, yeah, all the sectors are down. Retail, single-digit, and especially automotive, electronics, and manufacturing, overall, double-digit.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

On the margin, it's best to look, I would say, at the first half because you have the trading days impact negatively in Q2 that the business at the German level we have, we have the DACH region, the DACH region is running at around breakeven. So, the German business is still not, from a profitability, where it should be for sure, but we are building the capabilities. If you look at the head count in Germany, we did the restructuring, it's 11% down. So, we took the right measures to optimize the normal sales candidate-facing functions, but we have made sure that we kept the right people to regain the growth in the business.

But there's not help from Germany, and you saw that this quarter also for our peers is that the – because if you look at the margin structure relative to others that the impact of the regulation had is still in the first half of the year. So there are couple of things. While we are going to a fundamental change, the market is also changing. But if you look at the core profitability for this segment of Germany also and Switzerland in the first half, it's running at breakeven.

Now, the good news is – this is a good and a bad news story, I would say. Nobody likes a business at breakeven, but we made very strong margin into Q1 while we have this on Germany, so it's a drag on the group. It was a drag in Q4. So over time, this is an opportunity for us. It's not good now, but it will be positive for the future.

Michael Foeth
Analyst, Bank Vontobel AG (Research Firm)

Q

Okay. And we can expect a slightly positive margin for Germany for the full year I believe, right?

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

For the second half I would say.

Michael Foeth
Analyst, Bank Vontobel AG (Research Firm)

Q

Okay.

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

So I would plan the first half for the whole region at around breakeven and then the second half to improve from there.

Michael Foeth
Analyst, Bank Vontobel AG (Research Firm)
Q

Okay.

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

Recall, we need to grow the business and otherwise this operating leverage. The regulation hasn't helped because we saw that also now with [indiscernible] (00:45:58). But we need to grow our market share back and between driving for profit and rebuilding the business, we go for getting the German business back and that will on the profitability on the short-term be a little painful.

Michael Foeth
Analyst, Bank Vontobel AG (Research Firm)
Q

Thank you.

Operator: [Operator Instructions] The next question comes from the line of Suhasini Varanasi with Goldman Sachs. Please go ahead.

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

Hello. Good morning. Just one from me please. On the cost saving program that you started last year and you have an additional one this year, can you talk about what the net benefit will be on the SG&A after reinvestment in 2019 and also going into 2020? Thank you.

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

Yes. First, GrowTogether goes beyond productivity. It also has the Net Promoter Score and the candidate attractivity because we should also drive for growth. But what we first get is productivity benefits. Recall last year, we delivered €50 million. In this year, we said we would do in total versus the base year €120 million which is €70 million extra. So, we will year-over-year deliver €70 million productivity in SG&A from GrowTogether. And then next year, we will deliver another €130 million.

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

Thank you.

Alain Dehaze
Chief Executive Officer, Adecco Group AG
A

Good. Thank you.

Operator: Your next question comes from the line of Hans Pluijgers with Kepler Cheuvreux. Please go ahead.

Hans Pluijgers
Head of Research, Kepler Cheuvreux SA (Netherlands)

Q

Yes. Good morning, gentlemen. One follow-up first to start with on the SG&A development and impact from the savings. I made a quick calculation to understand, let's say, the full-year impact and the impact from last year. But if I make a quick calculation, then the impact of GrowTogether on, let's say, the savings side was about 2 percentage points to 3 percentage points. Is that a fair assumption on the SG&A side?

And then, secondly, on the top line. You indicated, let's say, that through the quarter it was stable for the group. And also looking into Q2, it looks stable trends. However, did you see some change or differences by region and could you give some feeling on that? And lastly, also on the top line, in the past you provided some details on the growth of the onsite business. Could you give some indication for that?

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

So, first of all, top line by region. That's what we had said in all communication. What we have seen is the stabilization in Europe at the back of very strong figures last year. So Europe, we are at minus 3%. We were at minus 8% last year. This is overall Europe. But if you zoom in, in some countries, we had plus 19% in Italy, 15% plus in Iberia, 10% plus in France. So, this is point one. Second, we have seen this trend in Europe stabilizing through the quarter. That's why we said when we look at the exit rate and we look at March-April combine, we are in line with the figure of Q1.

Then the region, especially North America, I think we have given you some insight why we had a slowdown, mainly coming from the Professional Staffing. The General Staffing is still positive. We don't have this high level of activity in logistics that in Q1 that we had in Q4, but I would say it remains quite solid.

And then we had Rest of the World and Japan, that's why we have a good news offsetting the slowdown in the U.S. with Japan at 8.6% which is also for us the result of not only the staffing but also the permanent recruitment, the outsourcing activities. It was all very positive. And also in the Rest of the World, we had plus 4%. So, with very good figures coming from Australia, New Zealand, from India and so good figures overall. That's the overall picture. Yeah.

Hans Pluijgers
Head of Research, Kepler Cheuvreux SA (Netherlands)

Q

And maybe one more question on the U.S. because you said already through the quarter, Europe is stabilizing, but also the U.S., that's was, let's say, relative flattish through the quarter?

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

You asked is about if I my memory serves me well, in General Staffing we have plus 4%, plus – I'm sorry...

Hans Pluijgers
Head of Research, Kepler Cheuvreux SA (Netherlands)

Q

But the trends...

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

[indiscernible] (00:51:18).

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

The trend is you mean from Q4 going into Q1. I think...

Hans Pluijgers
Head of Research, Kepler Cheuvreux SA (Netherlands)

Q

Yeah. And then for the quarter and then also ending the quarter.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Yeah. No, I think if you look at, let's start, with General Staffing where we did 2% growth. Q4, we had a higher level of growth because of the seasonal ramp-up in Q4. So, we saw some expected softening in Q1 of 2019 in the General Staffing. If we look in Professional Staffing, the trend is a little less good going into Q1 and the projects of legal which we talked, we're coming off from some projects into the quarter is playing here. That actually is biting into Q1. The trend in IT is pretty consistent.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

A

And to finish your question onsite over the quarter has been slightly negative around minus 2%.

Hans Pluijgers
Head of Research, Kepler Cheuvreux SA (Netherlands)

Q

And then the third question on the SG&A.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

Yeah. I wanted to come back. You did...

Hans Pluijgers
Head of Research, Kepler Cheuvreux SA (Netherlands)

Q

Okay. Sorry.

Hans Ploos van Amstel
Chief Financial Officer, Adecco Group AG

A

...the calculation right. It's around 3% of SG&A.

Hans Pluijgers
Head of Research, Kepler Cheuvreux SA (Netherlands)

Q

And then, maybe one follow-up question on the top line. Could you provide some indication on the comp through Q2? I know that comps became somewhat easier, but is that also – still also by month trend through Q3 – sorry Q2?

Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

A

No, not really. So what we see the exit rate and if we look how the revenue felt over this, no opting into the comparison there over the months.

Hans Pluijgers

Head of Research, Kepler Cheuvreux SA (Netherlands)

Q

Okay. Thank you very much.

Hans Ploos van Amstel

Chief Financial Officer, Adecco Group AG

A

You're welcome, Hans.

Operator: Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Adecco Group. Please go ahead.

Nicholas de la Grense

Head of Investor Relations, Adecco Group AG

Well, it's Nick again. Thank you very much, everyone, for joining and for your questions. And we look forward to meeting some of you on the road show and for [indiscernible] (00:53:20) we look forward to talking to you at the Q2 results in August. Thanks 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.