

26-Feb-2020

# Adecco Group AG (ADEN.CH)

Q4 2019 Earnings Call

## CORPORATE PARTICIPANTS

**Nicholas de la Grense**

*Head of Investor Relations, Adecco Group AG*

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

**Hans Ploos van Amstel**

*Chief Financial Officer, Adecco Group AG*

---

## OTHER PARTICIPANTS

**Bilal Aziz**

*Analyst, UBS AG (UK)*

**Chirag Vadhia**

*Analyst, HSBC Bank Plc*

**Konrad Zomer**

*Analyst, ABNAMRO Bank NV*

**Alain-Sebastian Oberhuber**

*Analyst, MainFirst Schweiz AG*

**George Gregory**

*Analyst, Exane SA (United Kingdom)*

**Tom Sykes**

*Analyst, Deutsche Bank AG (UK)*

**Oscar Val Mas**

*Analyst, JPMorgan Securities Plc*

---

## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, welcome to the Q4 Results 2019 Analyst Conference Call and Live Webcast. I am Sandra, 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 Nicholas de la Grense, Head of Investor Relations. Please go ahead, sir.

---

**Nicholas de la Grense**

*Head of Investor Relations, Adecco Group AG*

Good morning and welcome to Adecco Group's Q4 2019 results call. I'm joined today by Alain Dehaze, Group CEO; and Hans Ploos van Amstel, Group CFO. Before we start, please take a look at the disclaimer regarding forward-looking statements on page 2.

On today's agenda, first, Alain will discuss the highlights of the quarter. Hans will then review the group's financial performance, after which Alain will review the progress on our transformation and innovation agendas. We'll then open the lines for Q&A.

So with that, I hand over to Alain.

## Alain Dehaze

*Chief Executive Officer, Adecco Group AG*

Thank you, Nick, and good morning, ladies and gentlemen, and welcome to fourth quarter results investor call, and I will start with the key highlights. In the fourth quarter, we delivered a strong performance in a challenging economic environment. While revenues were down 4% year-on-year similar to the third quarter, we improved our gross margin by 20 basis points, the sixth consecutive quarter of improvement.

Our focused on value-based pricing, delivering more value to our customers through digital tools and solutions, and our enhanced business mix are having a positive impact. We also drove an improvement in EBITA margin, which was up 10 basis points year-on-year in reported terms and up 30 basis points underlying. GrowTogether productivity savings more than offset the negative impact from lower revenues. Cash flow was very good with cash conversion at 93% and DSO down by one day year-on-year.

On Transform, we made excellent progress with the GrowTogether program which underpinned the Q4 results. The program delivered total productivity savings of €140 million in 2019 ahead of the target of the €120 million, and we are on track to deliver on our commitment of €250 million in 2020. The technology roadmap is accelerating with wider deployment of proven products such as the candidate app, chat bots, and the integrated front-office solution.

On our Innovate agenda, we are pleased with the strong organic revenue growth at General Assembly, up 27% year-on-year and the realization of ecosystem synergies. In the digital ventures, we have continued good growth, strong product development, and we are also leveraging the learnings across the rest of the group.

Thanks to the solid full-year results and proceeds from the Soliant divestment, we ended the year with a very strong balance sheet. Therefore, in line with our capital allocation policy, we intend to pay a dividend of CHF 2.50 per share and also today announced a share buyback of €600 million to be completed during 2020 and 2021, this underlining our ability to deliver attractive returns to our shareholders while continuing to invest for profitable growth.

Now, I will hand over to Hans to take you through the financial performance in more detail.

---

## Hans Ploos van Amstel

*Chief Financial Officer, Adecco Group AG*

Thanks, Alain. Let's start with the revenue. Revenue was down 4% on a trading days adjusted basis. This is in line with the decline we saw in the third quarter, reflecting the continued economic uncertainty. Europe was minus 5%, which is slightly better than the 6% year-on-year decline in Q3. Remember that the slowdown in the European markets accelerated in the fourth quarter of 2018.

North America was down 9%, driven by General Staffing where the typical seasonal ramp-up in activity was below the level of 2018. Japan remains strong and in the Rest of World, we saw strong growth in Latin America.

Looking at the country revenue results in more detail on slide 8, France improved in Q4 and were back in line with the market. Activity weakened somewhat in December and in early 2020. The strikes had an impact. You will already have seen that in the latest market data which conform lower growth going into 2020.

Professional Staffing continued to deliver solid growth. In North America and UK, General Staffing revenues were down 11%. The UK was very much Brexit related. In North America, the Q4 results were impacted by the

challenging prior year comparison because of the strong seasonal demand in Q4 of 2018. The smaller peak demand in Q4 2019 was mainly linked to trade tariffs, which encouraged customers to restock inventories earlier in the year without needing the extra temporary workers.

In North America & UK Professional Staffing, sales were slightly weaker than in the previous quarter driven by the UK. In the UK, we saw a higher level of decline which continued in 2020 as Brexit-related uncertainty persisted. And the new IR35 regulations started to impact client behavior. In the US, our IT & Legal businesses remain challenging. We're making progress with the turnarounds and expect to see the results improve in the second half of 2020.

In Germany, Austria and Switzerland, the rate of revenue decline improved slightly. Germany continues to be a very tough market, impacted by the slowdown in industrial production and the continued weakness in the automotive sector. The deceleration in Switzerland reflects a softer economic environment in the main export markets, impacting the manufacturing and transportation sectors. The results in the Benelux were in line with the markets. In the Nordics, the results were impacted by lower demand in both the automotive and construction sector.

In Italy, the revenue decline was in line with the third quarter results at minus 6%. We had another strong quarter in Japan, growing market share supported by a strong margin. Professional Staffing including the Modis VSN business growing double digits. Iberia growing at plus 6% had another strong quarter, outperforming the market. In the Rest of World, the Australia decline is impacted by our decision to focus more on value over volume, while the growth improved in Latin America.

Career Transition and Talent Development saw a continued strong growth, first, Lee Hecht grew 6% and improved its market share; General Assembly delivered 27% growth in the quarter, building on the growth momentum of Q3.

Let's now turn to the gross margin on page 9. The reported gross margin increased 20 basis points. Currency and M&A had no impact this quarter. Hence, the organic gross margin was up 20 basis points. Temporary staffing had a negative 10 basis points. It is important to mention that we had a positive underlying price mix effect of 10 basis points and had a negative 20 basis points from discrete items related to the changes in France, which I will explain when we discuss the EBITA bridge. Permanent recruiting had a neutral impact. Career Transition added 20 basis points. In other activities, the outsourcing business and GA added 10 basis points from gross margin.

Let's now look at the EBITA margin. The margin was up 10 basis points to 4.9%. Let me first explain the impact of the changes of the discrete items in our gross margin, which helped Q4 of 2018, and had a negative impact in Q4 2019.

Social security and other accrual movements had a negative 60 basis points impact. 50 basis points are related to favorable items in Q4 of 2018 and 10 basis points are negative impacts in Q4 of 2019. The placement of France CICE subsidies in 2018 had a 40 basis points positive impact in Q4 2019. Remember that in December 2018 we didn't get any CICE which is the main driver of the year-over-year impact. The combination of the two was a negative impact of 20 basis points in Q4 of 2019. So, we delivered the 10 basis points margin improvement even after this negative impact. This means that we delivered an underlying improvement of around 30 basis points, while GrowTogether and improved business mix more than offset the impact for the lower revenue.

Now, let's turn to the profitability for the key markets. Gross margin remains strong at 7.1%. The decline comes from the changes in the social security, other accruals and CICE, which we just explained before. These factors

had a net negative impact on the margin of about 80 basis points in France versus Q4 of 2018 hence the underlying margin improved by 50 basis points, benefiting from GrowTogether productivity gains, improved business mix, and a strong focus on value. The North America and UK General Staffing margin declined by 20 basis points year-over-year in reported terms, the revenue decline impacted productivity and we continued to invest in the digital ventures.

In North America and UK Professional Staffing, the margin was down 30 basis points with a decline driven by lower firm revenues and negative operating leverage. The EBITA margin in Germany, Austria, and Switzerland declined by 90 basis points to around breakeven. The cost measures we took kept the productivity stable even after the revenue declined. The margin reduction coming from higher bench cost with many clients temporarily shutting down plants and reducing work time, remember in Germany all the temps are our permanent employees, so clients shut downs have a big impact.

In the Benelux and Nordics, our margin improvement comes from our focus on higher value portfolio and the cross-sections. In Italy, we continue to deliver a strong profitability and are investing in head count and IT to further strengthen our market position. In Iberia, the EBITA margin decline mainly comes from the outsourcing operation in Spain, which we exit at the end of the quarter. Finally, in Career Transition & Talent Development, the improvement is coming from strong operating performance at LHH and reduced losses at General Assembly behind the improvement in the growth.

Let's look at the SG&A in more detail on slide 12. We reduced the SG&A in line with the decline in gross profit yet need to recognize that the revenue shortfall impacted the productivity. Gross profit per FTE was down 2% in Q4 and up 1% for the full year 2019 as GrowTogether supported the productivity improvement while we had lower revenue.

Turning to the cash flow and the balance sheet on slide 13, cash flow was strong in the quarter. Days of sales outstanding are down 1 day to 52 days. Cash conversion increased to 93%. We had a working capital inflow linked to the lower DSO and the lower revenue, which improved the cash flow. Net debt to EBITDA reduced to 0.3 times, supported by strong free cash flow and the divestment proceeds from Soliant.

Our capital allocation policy remains clear. We return the excess cash flow to our shareholders at the end of every year. Excess cash is defined as net debt to EBITDA below 1 times. We're currently in a strong excess cash position with net debt to EBITDA at 0.3 times. Therefore, we announced the €600 million share buyback on top of a stable dividend of CHF 2.5 per share, combined this means a return of close to CHF 1 billion of cash to our shareholders.

Coming to the outlook, in January 2020, revenues declined 5% year-on-year and trading days adjusted, showing a slight deterioration compared to Q4 2019. Volumes in February confirmed that this trend continues. We should not forget that the economic uncertainty remains high and particularly we're watching closely for potential disruption to supply chains and demand for temporary staffing linked to the coronavirus outbreak.

In terms of the strategic agenda, we remain on track to deliver the total CHF 250 million GrowTogether commitment for 2020. Building on the momentum, we will continue to invest in our Innovate agenda with the Ventures. Therefore, we plan to continue to invest at the same level in 2020 or about €65 million.

We believe it remains important to continue investing in the Ventures and our underlying technology to strengthen the business. In 2019, we showed that we continued to make the right investments while we improved the

underlying EBITA margin. This remains our objective, strengthening the underlying EBITA margin even after continuing to invest in the Ventures.

And with this, I hand back 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 our GrowTogether program. And let's recall, GrowTogether is about strengthening the value proposition to drive sustained profitable growth. It's organized around the three key pillars that you see on the slide and is aimed at increasing productivity while also improving the value that we deliver to our customers.

Since 2017, we have implemented key initiatives for our customers, candidates and colleagues. The candidate ad that we have now in France, the US and Germany, the integrated front office solution that we have in UK, US, France and Spain, more than one – 10,000 colleagues trained under PERFORM method across our front, middle and back-office, bringing a lean manufacturing approach to all service operations.

All this is helping to drive higher customer satisfaction which we measure with Net Promoter Score. And in 2019, our client Net Promoter Score improved by eight points, a strong increase that was ahead of target.

On the productivity side, we also made strong progress in 2019. Recall that in 2017 during the Capital Markets Day, we committed to deliver €120 million of productivity savings in 2019 thanks to our transformation. In 2018, we delivered the first results with €50 million annual benefit. And in 2019, we continued reaching €140 million of productivity savings compared to 2016, and we are on track to deliver on our commitment for 2020 as well with a strong foundation to accelerate transformation in the years to come.

GrowTogether delivers tangible improvements to our candidates and our clients; and on slide 18, there is a real-world example from one of our largest onsite client. And you can see how, over the course of three years, we have significantly improved our efficiency and simultaneously improved the service delivered to our clients thanks to the increasing deployment of technology. For example, the ratio of applicants to placement has been reduced from 6:1 in 2017 to 3:1 in 2019 and this has a significant impact on the [indiscernible] (00:19:25) productivity.

At the same time, we are filling more client orders faster resulting in higher customer satisfaction, and this client confirmed the Adecco team has the best-performing suppliers across its business, combining best-in-class management and operational excellence with automation and technology. For 2020, we have further advances in the pipeline as we continue our transformation journey to bring more value to clients and candidates.

Now, a quick overview on progress related to the final part of our strategic agenda Innovate. General Assembly, our most mature venture continued its organic expansion with a strong operational quarter across the board, 27% organic revenue growth in the fourth quarter, very strong demand for its differentiated online immersive offerings and enterprise bookings up strongly in the fourth quarter. So we are very pleased with the performance at General Assembly. In particular, we are pleased by the collaboration with all the group brands, which we talked about last quarter, combining the strengths of various brands to deliver for our clients and candidates.

Looking at the digital ventures, Adia maintained its good growth momentum in Switzerland and successfully launched in the US where it has developed leading end-to-end digital capabilities. Technology from Adia is also being leveraged to improve processes in the Adecco business, for example, relating to workforce scheduling and

associate onboarding. Vetter's innovative, subscription-based permanent recruitment model continued to gain traction, with placements up 80% in 2019 and strong momentum on the enterprise side.

YOSS is still in an early phase of development, but with substantial market potential. Product development during 2019 was good with several initiatives to accelerate progress in 2020. Overall, we are pleased to see the continued progress of our digital ventures and what they bring to our 360-degree HR offering.

Coming now to the concluding messages, the fourth quarter was a quarter of strong execution and solid performance in a challenging market environment. We continue to invest in our digital transformation to fundamentally strengthen the business, with GrowTogether, IT and all new ventures.

And as we look to the year 2020, we are continuing to expand the GrowTogether program, with the technology roadmap accelerating. Having delivered on our commitment in 2019, we are on track to reach the €250 million GrowTogether target for 2020, and there is significant opportunity beyond that as we build on the platform that we have established, especially to drive more value and secure relationships with our clients and candidates. Finally, our new business offerings are getting traction, with clients leveraging the combined strengths of our ecosystem, which is an increasingly valuable differentiator in the evolving world of work.

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 Bilal Aziz from UBS. Please go ahead.

---

**Bilal Aziz**

*Analyst, UBS AG (UK)*

Q

Good morning, everyone. Just a few from my side, all on the margin actually. So, firstly just on the gross margin trend, perhaps can you give us a bit more guidance there how do you expect that evolve in the future given now you'll be running tough comparatives on the pricing and mix perspective and any other moving pieces within that?

And secondly, the margin improved a fair bit in Career Transition. Does that improvement signal the end of investments in General Assembly, and is it fair to assume profitability in 2020 or is that a bit premature? And finally, can you talk us through the phasing of the margin EBIT improvement through 2020, yeah, by the quarter roughly? Thank you.

---

**Hans Ploos van Amstel**

*Chief Financial Officer, Adecco Group AG*

A

This could fill up the rest of the hour I would say, but let's start maybe with the core of your question. I give a small – I think what you have been seeing us doing this year is that we improve the underlying margin while we continue to invest in ventures and that sets us up in this environment which remains on certain rights that we have a solid foundation. I think our objective for next year is one thing, we will continue to invest in the ventures at the same level as this year. So while we're making more progress on General Assembly while it's growing, we will also invest in other ventures and new innovations. So we'll continue to invest at around the 25 basis points. So that will stay the same next year.

Then, we will get GrowTogether benefits next year. So we expect next year that we want to improve continuously the underlying margin. We should not forget that we're exiting Soliant which has a negative impact of around 15 basis points. So if we would be stable in 2020 that means we improve the underlying margin by around 15 basis points. I cannot give you an outlook because the revenue, I have no crystal ball but all things equal. Our objective is to improve the underlying EBIT margin to offset that Soliant.

I can give you – you also asked some phasing.

**Bilal Aziz**

*Analyst, UBS AG (UK)*

Q

On phasing you'll take it?

**Hans Ploos van Amstel**

*Chief Financial Officer, Adecco Group AG*

A

Yeah, because I think that's important because I think some more people will ask that question as well. And I start with the gross margin in Q1. First, we have the divestiture of Soliant line which is 20 basis points down in Q1. The exchange rates we assume is around positive at around 10 basis points. And between our temp margin and the Career Transition, we expect a positive gross margin trend of around 30 basis points, 50 basis points. So, we see that also the temp gross margin continues to be modestly positive. But take temp and Career Transition together, we have 30 basis points to 40 basis points, meaning that our gross margin would go up 20 basis points to 30 basis points.

On SG&A, you will get continued benefits from GrowTogether. Regarding Q1, we need to be a little prudent and careful is that we are going to implement systems in the first quarter. We're rolling out the new tools in France, Japan and Spain, so we go live with quite some of the developments of GrowTogether. We continue to invest in the ventures. The exchange rates will also have an impact on SG&A, but in the opposite direction as the gross margin. So if you add it all up, we would be underlying about stable and given where the revenue uncertainty is on Q1 we think that is [indiscernible] (00:27:51) with all the things we're also investing in is a good start because we're not compromising on continuously rolling out the technology, and there's quite some things in Q1. So we're ending the year with a good foundation which sets us up next year to structurally improve the margin also in 2020.

**Bilal Aziz**

*Analyst, UBS AG (UK)*

Q

Very clear. Thank you.

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

A

Thank you for the question, Bilal.

**Bilal Aziz**

*Analyst, UBS AG (UK)*

Q

Thank you.

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

A

Next.



**Operator:** The next question comes from the line from Chirag Vadhia from HSBC. Please go ahead.

**Chirag Vadhia**

*Analyst, HSBC Bank Plc*

Q

Hi there. Just two questions from me. Firstly on IR35, given the recent UK Chancellor's comments on – suggesting that tax officials won't be heavy handed for the first year on the rule changes. Do you just see a little bit more leeway in the short term?

And secondly, could you give a bit more color on the decline in General Staffing in North America in particular surrounding the client commentary on inventory restocking? Thanks.

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

A

Yeah. When we look at – I will start with the General Staffing decline, now what we have seen in the fourth quarter of 2019 is that it has been influenced, let's say, 50% by the slower or the weaker peak we had in 2019 versus the peak of 2018, it's explained about 50% of this slowdown, and the other 50% is coming from the overall market slowdown. And you have seen that. And, yes, we explained this slowdown with the timing of the restocking of the inventory that you had last year also in the context of the trade war and so this had that influence.

Now, regarding the regulation in the UK because we have explained the slowdown of January, the minus 5 versus the minus 4 into Q4 by the strikes in France, but also by the new regulation IR35. And what we have seen is that in fact our clients have already acted regardless I would say the comments from finance ministers, and we had seen our clients doing or putting either the contractors on permanent contracts or putting them on the so-called pay-as-you-earn let's say framework, so that they could protect themselves from the potential obligation they would have to compensate or to pay the cost due for misclassification.

**Chirag Vadhia**

*Analyst, HSBC Bank Plc*

Q

Thank you.

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

A

You are welcome.

**Operator:** The next question comes from the line from Konrad Zomer from ABN AMRO. Please go ahead.

**Konrad Zomer**

*Analyst, ABN AMRO Bank NV*

Q

Hi. Good morning, gentlemen. A few questions; the first one on the €600 million share buyback. Now, you may be indicate to us will that be a 50/50 split between this year and next year or will you be more opportunistic?

My second question is, just to confirm on what was said earlier, if you exclude the strong business in the US General Staffing business of the fourth quarter last year, do you still look at an organic decline of about 5% to 6%

in Q4? My last question is on GrowTogether, I think you've made excellent progress. I was just wondering is it easier to make that progress in times when your top line growth is negative.

**Hans Ploos van Amstel**

*Chief Financial Officer, Adecco Group AG*

A

Yeah. Three questions. So, on the €600 million, we will face that over 2020 and 2021. And because of the dividend payment, this normally starts a little later in 2020. So it's a little bit more skewed to 2021 but assumed 50/50 for the sake of simplicity. We will execute that program almost like on a daily basis because we won't be opportunistic on that. It's the form in which we give back the cash flow.

If you look at the underlying trend, it is true that because of the comparison base, the US, right, a little bit tough comparison base that the US market is also down and we have in January from all the impacts of I think the underlying exit rate we gave of that 5% is what we're seeing that could be a little bit more better in the US. But you also have the France impacts. So we haven't seen a material change in that.

What I would say on GrowTogether and in general where the company is positioned. And for sure, when you grow the business, driving productivity is easier because the same people can drive more revenue growth. In a declining environment, it's a little bit more challenging. But if you look what we have delivered in 2019 and in Q4, we continue to drive the productivity from GrowTogether, which is strengthening the margin in this trading environment. And I think where the company is well-positioned going into 2020, that the GrowTogether program is very well embedded in the business.

We have the PERFORM approach training 10,000 people. So, they can continue to drive better delivery and better productivity. The technology agenda is further along. We built new integrated [ph] front office systems (00:34:02). We have new candidate apps. We have digital time sheets. We have, on our own sites, new technology. It's now more about spreading it.

For sure, we continue to build, but the €250 million we need to deliver in total is all about spreading what we have built, and that's what we're going to do in 2020. So that's what I always say. We have a continued opportunity-rich margin because we are investing and we have the GrowTogether program.

**Konrad Zomer**

*Analyst, ABN AMRO Bank NV*

Q

Thank you very much. That's very clear.

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

A

Thank you, Konrad.

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

**Alain-Sebastian Oberhuber**

*Analyst, MainFirst Schweiz AG*

Q

Good morning, Alain and Hans, Alain speaking.

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

Good morning, Alain.

A

**Alain-Sebastian Oberhuber**

*Analyst, MainFirst Schweiz AG*

I have two questions from my side. The first is also regarding North America and probably in both sectors: General Staffing and Perm sales. So, you already highlighted where you lost market share in the – was it in Perm and General Staffing? And the second question in that first is would you like to act for that and when could we see an improvement in North America?

Q

The second question is regarding France. Now, the effect of the strike in January we had in 2020, could you give us also a guidance there and do you expect the strong improvement in Q2 versus Q1 in France? Thank you.

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

Okay. On North America, Alain, I think we have to see the context especially in the Professional Staffing. If I look at the figures in Q4 2018 for [ph] UNAM (00:35:51) including the UK, but, nevertheless, US is very important, we had 28% growth. So, we have a minus 7% at the back of a very strong Q4 2018. That's the context.

A

Now, I see how we are developing now in Perm and I was speaking about the Perm, I see how the year has started in the US, and I'm quite confident that the Perm remains a very attractive market and that we – we are performing well in this market. I don't see anything very particular.

Then, on your point regarding France, I didn't catch your question sorry, Alain, regarding the Q2 versus the Q1?

**Alain-Sebastian Oberhuber**

*Analyst, MainFirst Schweiz AG*

Yeah, exactly, regarding – because we had the strike obviously in France, which will have a negative impact and do you expect a strong recovery coming through then in Q2?

Q

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

You know that we have a limited visibility and you – I think the – all the negotiation and the discussion around the reform are still ongoing, we will see how it will develop politically. And this outcome will also have consequences on potential strike or not, and we have a limited visibility on this, I cannot tell more – I can tell you now.

A

**Alain-Sebastian Oberhuber**

*Analyst, MainFirst Schweiz AG*

Thank you very much.

Q

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

You're welcome.

A

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

**George Gregory**

*Analyst, Exane SA (United Kingdom)*

Q

Good morning everyone. Three if I may please. Firstly, just regarding the better than expected run rate of GrowTogether savings, I'm just wondering was that driven by faster-than-expected rollout of your tools or did you see improved adoption, improved benefit from the tools. Ultimately, I'm just wondering whether we could expect a lift to the €250 million targeted savings for 2020.

And linked to that, second question really relates to savings beyond 2020. I presume that by the end of this year you won't have fully leveraged the benefits of your new chat bot [ph] candidate (00:38:25) tools and so forth. Should we therefore see some benefits rolling into 2021 and beyond, please?

Final question relates to earlier question – earlier comments on the margin trend for 2020. The suggestion was all things being equal. Do you mean the current revenue trajectory down 5% or rather do you mean flat year-over-year revenue or rather something in between, please? Thanks.

**Hans Ploos van Amstel**

*Chief Financial Officer, Adecco Group AG*

A

Yes. Let me start with the first one. It is true that on GrowTogether we're having good momentum, which we should be pleased with. So, the things were rolling out. And like you say the adoption of the program is yielding on its results and that's good. Now, let's not forget when we created the commitment, we were in the summer of 2017, so that were still, I would say, high-level numbers. So, I would just say it's good to see that the program is ahead. But to be that precise first at that point, but it's precisely working better as hard. I think the good thing is it's delivering all those objectives we set, and we're a little bit better. So that should put us on track to secure our commitment for 2015. And like you say, GrowTogether has done more than just building the €250 million. We have done better to PERFORM matters into the business. And if you know something about lean manufacturing, this is about continuous improvement.

The MPS activation program, which is starting to improve our MPS, will continue. Like you say, we will scrap further tools developed, but we're still building further enhancements to our tools. So we laid a foundation to deliver the €250 million. And I would say an approach which will give us continued benefits on the way we work with our customers, the way we build technology that we will also improve the margin for the years to come. So I think that's the positive news of GrowTogether.

On 2020, it's a very good question. I said all things equal, so I said it for the fiscal year. I think in the fiscal year, our revenue was a little less down than the minus 5%. It was more like down minus 3%. I would assume that the first half of the year, because of all the uncertainties you read, we have more uncertainty. When I make that statement, I assume that the second half of the year because that's deteriorated a little this year. And that would improve a little so that you get to a – and I'm not giving an outlook but I'm giving you all things equal. For me, it deems all thing equal versus this year, the full year.

**George Gregory**

*Analyst, Exane SA (United Kingdom)*

Q

Very clear. Thank you.

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

Thank you.

A

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

**Tom Sykes**

*Analyst, Deutsche Bank AG (UK)*

Yeah. Morning, everybody. Just on Italy and Japan, obviously, there's lots of news there on incremental virus impact. So, are you seeing any impact on your business there? And maybe also could you say about the Perm versus temps [ph] skewers (00:42:05) in Italy, Japan please. Then also just in Germany, you are sort of annualizing I suppose the declines now. So what's happened to your like-for-like pricing in Germany, please, either at large account and small account?

Q

And then just on GA, could you maybe talk about the cash profile of that business versus the revenue recognition? Obviously, there does seem to be some sort of delay. There are different ways in which you can pay for your courses. And I was just wondering whether the cash profile matches the revenue recognition in that please.

And I suppose just a final follow up would just be on your Q1 gross margin commentary. Should we assume therefore that Perm is neutral to the gross margin when you were talking about the underlying – sorry, the reported gross margin, I guess, the target being up – being up 20 basis points, 30 basis points please?

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

Okay.

A

**Tom Sykes**

*Analyst, Deutsche Bank AG (UK)*

Thank you.

Q

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

Thank you, Tom, for your questions. Regarding Italy and Japan at this stage, we don't have any impact or any material impact in all results. That's what I can tell you today. That's what I can do about Q4, about January, and about the situation today. We will see how it will develop, but I can do this statement right now. More specifically on Perm, I can even tell you that we had a very good month in Perm in Italy in January.

A

Coming to Germany, the pricing, we are extremely pricing disciplined in Germany whatever the customer segment since it's a large segment and we had been able to negotiate or renegotiate some of the large deal we had there, and we are extremely price sensitive – price disciplined, and it will continue like this.

And then for the cash profile of GA, I leave it to Hans.

**Hans Ploos van Amstel**

*Chief Financial Officer, Adecco Group AG*

A

Yeah.

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

A

And the Q1?

**Hans Ploos van Amstel**

*Chief Financial Officer, Adecco Group AG*

A

Oh, yeah. Building on I think Germany we continue to see the pricing moving in the right direction. I think where the EBIT margin and also some of the gross margin impact is the bench score because we have quite success from plants...

**Tom Sykes**

*Analyst, Deutsche Bank AG (UK)*

Q

Okay.

**Hans Ploos van Amstel**

*Chief Financial Officer, Adecco Group AG*

A

...the factory shutdowns. So, the gross margin is impacted by the bench scores. The cash profile between GA and the revenue recognition is a little different; but at the group level, it's not a material movement because sometimes indeed, on the consumer business, between how this revenue works, but it's not a material one.

On Q1 gross margin, your conclusion is right. You can assume with what I gave that the Perm is stable.

**Tom Sykes**

*Analyst, Deutsche Bank AG (UK)*

Q

Okay. Thank you. And just because Italy is quite a reasonable size business for you, are able to say how much business you actually have in Milan or quarantined areas or a little bit more visibility sort of Northern Italy versus Southern Italy at all please?

**Hans Ploos van Amstel**

*Chief Financial Officer, Adecco Group AG*

A

Of course. It's all very early days. We have...

**Tom Sykes**

*Analyst, Deutsche Bank AG (UK)*

Q

Exactly. But I greatly appreciate that, so just trying to – yeah.

**Hans Ploos van Amstel**

*Chief Financial Officer, Adecco Group AG*

A

...yeah, I know. It's a disclaimer. So, we haven't seen an impact yet, but we all know that the northern part of Italy is where the bulk of the economy is and around, what, 60% of the economy, and with that it's a large part of our exposure. So, we're watching this carefully. We haven't seen it yet, but carefully following the whole situation for sure.

**Tom Sykes**

*Analyst, Deutsche Bank AG (UK)*

Sure. Okay. Many thanks for your answers. Thank you.

Q

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

You're welcome, Tom.

A

**Operator:** [Operator Instructions] The next question comes from Oscar Val from JPMorgan. Please go ahead.

**Oscar Val Mas**

*Analyst, JPMorgan Securities Plc*

Yes. Good morning, everyone. Its two questions on behalf of Sylvia Barker here at JPMorgan. The first one on GrowTogether and CHF 140 million you saw this year was that spread evenly across the group or was it more weighted to some countries like France? And then is it fair to say that next year the benefits will be skewed to other countries like Germany and the US as you roll out kind of candidate apps and other digital tools?

And then maybe the second question on Adia. It's going very well in Switzerland. Could you comment on if you could see it expanding across Europe? Thank you very much.

Q

**Hans Ploos van Amstel**

*Chief Financial Officer, Adecco Group AG*

Yeah. In GrowTogether it is still skewed to certain markets, and you named one which is France but we also have benefits in countries like Italy and Spain and some of the US but not sufficient given the revenue declined to fully offset it.

And we are spreading it. Like you say, Germany will come on the GrowTogether agenda which is good. We know how to strengthen the margin, and Germany is a key market where we are focused to improve the margin, and we're rolling out also certain things in the US like the Candidate Portal of France. So 2020 is more about spreading it, and then on the small markets, we'll also bring solutions into the business. So we're spreading it next year.

A

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

Yes. And on Adia, indeed we are very pleased with the progress on the product side. So that's very good. For the moment, we – geographically, we want to focus just on Switzerland and the US market. And I've said in this – in Switzerland, we had a strong double-digit growth. We had very healthy gross margin, and we are establishing a path to the profitability. In the US, we have successful pilots of the products and the processes. We are moving also and beating our own targets under what we call the zero touch and the candidate acquisition costs. And we are now starting to ramp up the sales and so that we can get good traction for customers.

A

**Oscar Val Mas**

*Analyst, JPMorgan Securities Plc*

That's very helpful. Thank you very much.

Q

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

You are welcome.

---

A

**Operator:** [Operator Instructions] Gentlemen, so far there are no more questions.

---

**Nicholas de la Grense**

*Head of Investor Relations, Adecco Group AG*

Okay. Well, thank you everyone for joining the call today and thanks for your questions especially some of you who we'll see on the roadshow and we look forward to that. Otherwise, we will next talk on the 5th of May with the Q1 result. Thank you very much.

---

**Alain Dehaze**

*Chief Executive Officer, Adecco Group AG*

Thank you.

---

**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.

**Disclaimer**

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.