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ADEN.VX - Q2 & Half Year 2013 Adecco SA Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, good morning. Welcome to the Adecco Q2 results 2013 analysts and investors conference call.

I am Goran, 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. After the presentation, there will be a Q&A session.

(Operator Instructions). The conference must not be recorded for publication or broadcast.

At this time, it is my pleasure to hand over to Mr. David Hancock, Head of Investor Relations, accompanied by Mr. Patrick De Maeseneire, CEO of the Group, and Mr. Dominik De Daniel, CFO of the Group.

Please go ahead, gentlemen.

David Hancock - *Adecco SA - Head of IR*

Thank you. Good morning, and welcome to Adecco's second quarter 2013 results conference call. Patrick De Maeseneire, Group CEO, and Dominik De Daniel, Group CFO, will lead you through the presentation today, followed by a Q&A session.

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

So let me give you a quick overview of today's agenda. Patrick will present the operational highlights; then Dominik will review the financials. And finally, Patrick will make some comments on the outlook. We will then open a line for your questions.

With that, Patrick, I hand over to you.

Patrick De Maeseneire - *Adecco SA - CEO*

Thank you, David. Good morning, ladies and gentlemen. Welcome to our Q2 results conference call. First, the highlights.

Adecco delivered a strong performance in the second quarter. We had revenues of EUR4.9 billion, down 3% organically. I'll expand on this by region in a moment.

The gross margin in Q2 was 17.9%, up 20 basis points year on year, and 30 basis points on an organic basis.

Costs continued to be well controlled. SG&A organically and before restructuring and integration costs was down 3% year on year, and flat sequentially. This resulted in EBITA before restructuring and integration costs of EUR202 million, an EBITA margin of 4.1%, up 40 basis points compared to last year.

In the quarter, net income grew by 12% and basic EPS by 17%, helped by the impact of the share buyback program.

We have now spent EUR361 million under the current share buyback program. This morning, we announced that after completion of the current program, we intend to launch a new share buyback program of up to EUR250 million.

In June, revenues were down 2% on an organic basis and adjusted for trading days, and July showed a similar trend.

If we now have a look at the organic revenue development by region. In North America, revenues held up well with 3% growth year on year. In Europe, revenues were down 5% in the second quarter. We are now seeing some more positive signs in our business, and the year-on-year organic revenue decline rates eased in almost all European countries.

France still had double-digit sales decline, but the gap to the market narrowed further this quarter. Elsewhere, Benelux, Iberia and Switzerland still declined, but the rate of decline eased to just 2% or 3%. Meanwhile, revenues were flat in Germany and Austria, Italy and the Nordics. The UK and Ireland grew at 4%.

Rest of World was down 1%. In Japan, the rate of revenue decline eased to single digits at minus 9% in the quarter. Australia and New Zealand remained difficult with a decline of 10%.

By contrast, emerging markets revenues grew 8%, with a strong acceleration in Eastern Europe.

We go to our main markets now. In France, revenues were EUR1.2 billion, down 12% year on year. This is an improvement compared to Q1, and the gap to the market also narrowed further.

From an industry perspective, the year-on-year declines were greatest in automotive and construction. However, the sequential seasonal pickup was solid, especially in these sectors as well.

Our Perm revenues were down 21% in the quarter. As we have previously indicated, given the tough economic environment, we are taking additional restructuring actions in 2013 to optimize the cost base. We incurred EUR2 million restructuring costs in the quarter under review.

The EBITA margin before restructuring costs was 4.1% compared to 3.3% in Q2 last year. The Q2 2013 EBITA margin was positively impacted by approximately 100 basis points thanks to CICE, which is the tax credit for competitiveness and employment. In Q2, we used the same calculation methodology for CICE as in Q1.

Revenues in June were down 11%, adjusted for trading days.

In North America, revenues were up 3% organically to EUR960 million. Revenues in General Staffing were flat and in Professional Staffing were up 4% organically. Within General Staffing, we saw growth of 3% in Industrial, offsetting a similar decline in Office.

Within Professional Staffing, IT and Engineering & Technical are our two largest businesses. The North American IT business grew 8% year on year organically, driven by good growth in the US of 11%.

In Engineering & Technical, revenues were up 3%. In Perm, our revenues continued to develop very well, up 10% in constant currency.

The EBITA margin in the quarter was 5.2%, up 70 basis points year on year, as we start now to see the leverage of previous investments in our IT and MSB and the MS businesses.

In June, revenues were up 2% organically and adjusted for trading days.

Revenues in the UK and Ireland amounted to EUR469 million, up 4% in constant currency. This was against a tough comparison, as the prior year benefited from the Olympics.

Perm revenues were down 16% on a constant currency basis. The EBITA margin was 1.8% compared to 0.7% in Q2 2012. Revenues in June were down 1% in constant currency and adjusted for trading days.

Note that in Q3 2012 revenues also benefited from the Olympics.

In Germany and Austria, revenues were flat. Automotive showed this normal sequential seasonal pattern with low single-digit growth year on year. Demand from the aerospace sector remained solid.

EBITA was EUR15 million, giving an EBITA margin of 3.7%, up 20 basis points year on year.

Please note that Q2 is seasonally the weakest quarter of the year for profitability given the number of bank holidays. In June, revenues were flat organically and adjusted for trading days.

In Japan, revenues were down 9% in constant currency. As expected, the decline rate eased significantly compared to Q1 as the effect of prior-year outsourcing work has now dropped out of the comparative.

Despite revenue decline, profitability remained strong, thanks to price discipline, cost reductions and a good Perm growth of 13%. As a result, the EBITA margin was 6.3%, up 30 basis points compared to Q2 2012.

In June, revenues were down 5% in constant currency and adjusted for trading days.

Finally, we turn to Adecco's development by business line on a constant currency basis. In Q2 2013, revenues in our General Staffing business were down 4% compared to minus 9% in Q1.

The Industrial business was down 5% while the Office business was down 2%. Revenues in Professional Staffing grew by 2% organically in Q2, with growth in IT, Engineering & Technical and Finance & Legal.

Our Solutions business increased by 9%. Revenues at Lee Hecht Harrison were up 6%, continuing to outperform the market. Revenue growth in MSB and VMS was again strongly double digit, with a further acceleration in the growth rate in Q2 compared to Q1.

And with this, I would like to hand over to Dominik who will discuss with you the financials in more detail.

Dominik de Daniel - *Adecco SA - CFO*

Thank you, Patrick. Good morning, ladies and gentlemen. I will start with the overview. In Q2 2013, we had revenues of EUR4.9 billion, down 5%, or down 3% organically.

The gross margin was 17% in Q2, up by 20 basis points year on year, or by 30 basis points organically. Sequentially, the gross margin was down 10 basis points.

SG&A was down 5% in constant currency compared to prior year. SG&A was 3% lower year on year on an organic basis, and excluding restructuring and integration costs.

Sequentially, the cost base was flat on a constant currency basis, and then excluding restructuring costs.

EBITA was EUR200 million. Excluding restructuring costs, EBITA was EUR202 million. The margin was 4.1% in Q2 2013, up 40 basis points compared to Q2 2012, excluding restructuring and integration costs.

Net income in the quarter under review was EUR126 million, up 12% year on year. Basic EPS was up 17%, helped by the impact of the share buyback program.

Let's have a look at the year-on-year gross margin evolution. The Group's gross margin was 17.9% in Q2 2013, up 20 basis points year on year, or by 30 basis points organically.

Organically, Temporary Staffing had a 25 basis points positive impact on the gross margin in the quarter.

Perm placement had a neutral effect on the gross margin. Perm revenues were down 3% in constant currency. The Outplacement business had a positive impact of 10 basis points, while other activities had a negative impact of 5 basis points organically.

Acquisitions and divestments had a negative impact of 10 basis points year on year this quarter.

Now let me discuss how our cost base developed in the second quarter this year. We continued to monitor revenue development closely and managed the cost base accordingly.

SG&A in Q2 was down 3% compared to the same quarter last year on an organic basis and before restructuring and integration costs.

On an organic basis, FTEs were down 6% year on year. Branch network also decreased by 5% organically compared to the prior year. Our Q2 2013 results included EUR2 million restructuring costs, while restructuring and integration costs were EUR9 million in Q2 2012. Sequentially, our cost base was flat at constant currency and before restructuring costs.

SG&A for the Group in the third quarter this year is expected to be similar to Q2 2013 on a constant currency basis and before restructuring costs.

Moving on to the balance sheet. Our cash and short-term investments were EUR373 million at the end of the quarter. DSO was 53 days in Q2 2013, one day less than in Q2 2012.

Goodwill and intangible assets amounted to EUR4 billion at the end of June 2013. Adecco shareholders' equity was EUR3.4 billion at the end of the period.

In 2012, we launched a share buyback program of up to EUR400 million on a second trading line with the aim of subsequently cancelling the shares and reducing the share capital. To date, the Company has acquired 80.9 million shares under this program for EUR361 million.

After completion of the current share buyback program, we intend to launch a new program of up to EUR250 million. This will be also executed on a second trading line with the aim of subsequently cancelling the shares.

Turning to the cash flow statement. In the first half, cash used in operating activities was EUR11 million compared to an operating cash flow generated of EUR81 million in the same period last year.

In H1 2013, the Group invested EUR36 million in CapEx, and paid EUR218 million related to the purchase of own shares. The dividend paid in May was EUR266 million. In addition, the repayment of long-term debt was EUR345 million, and the increase in short-term debt amounted to EUR137 million.

Net debt at the end of June 2013 was EUR1.5 billion compared to EUR1.1 billion at the end of March.

In July, we issued a EUR400 million Eurobond with a [coupon] of 2.75% due in November 2019. The proceeds will be used for general corporate purposes, including the refinancing of the existing five-year guaranteed euro medium-term notes due in April 2014.

Our financial guidance for the full year 2013 is as follows.

CapEx for the year is now expected to be around EUR90 million. Interest expense, excluding interest income, I expect it to be around EUR80 million for 2013. We anticipate corporate costs of approximately EUR100 million. And our amortization of intangible assets is expected at EUR45 million for the full year. The underlying tax rate for Q3 is expected to be around 30%.

As we have said, to further optimize the cost base, we expect to invest a total of EUR30 million in 2013, of which we incurred EUR30 million in H1.

With this, I hand back to Patrick.

Patrick De Maeseneire - *Adecco SA - CEO*

Thank you, Dominik.

I would like to finish with the outlook for our business.

The labor markets are starting to stabilize around Europe and we see some more positive signs in our business. The rate of revenue decline eased across Europe in Q2. France is still down double digits, but the gap to the market has been narrowing since the beginning of the year.

Elsewhere in Europe, declines were no more than 2% or 3% in the quarter, and we were flat in Germany and Austria, Italy and the Nordics.

North America continues to perform well, and the emerging markets delivered high single-digit growth with a strong acceleration in Eastern Europe.

We exited the quarter with Group revenues in June down 2% organically and adjusted for trading days. July showed a similar development. The steady improvement so far this year is encouraging for the second half.

We continue to be very focused on reaching our EBITA target of above 5.5%. And given recent trends and more favorable economic conditions expected towards the end of 2013, we are convinced we will achieve this target by 2015.

And now I would like to open the floor for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Robert Plant, JPMorgan.

Robert Plant - *JPMorgan - Analyst*

Good morning, everyone. You've helpfully given us the exit rate of 2% compared to 3% down in Q2. Across your countries, was there any difference in June and July in terms of the trends that you saw?

Thank you.

Dominik de Daniel - *Adecco SA - CFO*

If we look to July, the trend is basically in all countries very similar to June.

Robert Plant - *JPMorgan - Analyst*

And no difference between the individual countries?

Unidentified Company Representative

Individual -- for all the individual countries. There's really no country I would say there is a -- [highly] of significant variance. It's really very similar across all countries.

Robert Plant - *JPMorgan - Analyst*

Thank you, Dominik.

Operator

Kean Marden, Jefferies.

Kean Marden - *Jefferies & Co. - Analyst*

I've got three, if I may. I'm wondering first of all whether the minus 3% organic revenue growth for the second quarter is day adjusted, first of all.

Dominik de Daniel - *Adecco SA - CFO*

It's not day adjusted. Adjusted for trading days we were minus 4%.

Kean Marden - *Jefferies & Co. - Analyst*

Okay. Thank you very much, Dominik. Secondly, in terms of the UK, as we've moved from plus 4% in the quarter to minus 1% in June, is that partly because of the comparable becoming more difficult because of the Olympics?

Patrick De Maeseneire - *Adecco SA - CEO*

It is, yes.

Kean Marden - *Jefferies & Co. - Analyst*

Okay. Have you got a feel for what the underlying business performance is like if you strip out the Olympics distortion?

Patrick De Maeseneire - *Adecco SA - CEO*

It would still be slightly positive for the quarter, but the impact of the Olympics, like I said also in the presentation, the impact of the Olympics in Q3 was more than it was in Q2.

Kean Marden - *Jefferies & Co. - Analyst*

Yes. So would June be about plus 3%/plus 4% as well?

Patrick De Maeseneire - *Adecco SA - CEO*

Yes, something like that.

Kean Marden - *Jefferies & Co. - Analyst*

Okay, thanks. And then just one quick one for Dominik. I'm just wondering why your CapEx guidance has come down from EUR120 million to EUR90 million?

Dominik de Daniel - *Adecco SA - CFO*

[The big one] is the following, as you know and as we discussed also at the Investor Day Paris last time, we are focusing on IT investment in order to basically roll out global systems and at a certain time also decommission old systems.

And at the time, we have taken certain assumptions between CapEx and OpEx where we have not yet decided where we buy off-the-shelf products, where we invest in own solutions, and this assumption has somewhat changed and therefore reduced the CapEx guidance to EUR90 million.

Kean Marden - *Jefferies & Co. - Analyst*

Great. Thanks very much.

Operator

Paul Sullivan, Barclays Capital.

Paul Sullivan - *Barclays - Analyst*

Just firstly on cost savings and restructuring. Do you think the bulk of the restructuring will come through in the third quarter? And how do you see the balance of savings going through the next two to three quarters?

And then following on from that, in terms of flat, underlying sequential SG&A, are you seeing any investment pressures? You've got Randstad starting to put some more money into marketing; and how do you view cost pressures and cost creep coming back into the business over the next two/three/four quarters or so?

And then just following on from that, on the buyback, it looks like you're sticking with the EUR25 million a month on average. Is that an optimal level as you see it from a technical volume shares traded perspective? Or is that from a balance sheet perspective? Because potentially, as things get better into next year, you could have capacity to push it on a little bit further.

Dominik de Daniel - *Adecco SA - CFO*

If we first look to the restructuring costs, I would say the restructuring costs will be more or less equally split between Q3 and Q4. The part related to France, there, the payback period is definitely more than one year. It takes more than one year to get the full payback. And for the other countries, it will be one year or a little bit less.

And partly it's related it to our data center consultation which is rather an investment for the new platform. So from this point of view, you will see some savings. I would say, on average you can use one year as an assumption.

Underlying cost base development, we clearly are fully committed to show operational leverage in the case revenue development is improving. We had capacity in our business.

We always optimize our cost structure. So we are not at the point that we have now to add headcount, but what we'll do, we do a little bit more of IT spending like it was planned, and like we also explained our strategy in this respect, but we don't see a reason now to add headcount. Here and there it may be a little bit Perm, but it's very minor.

And then regarding the share buyback, the existing program, the EUR400 million, we concluded or executed 90% out of it, so just the 10% to go which we continue in the same manner how we have done it. Of course, trading volume has to be considered. We do this also opportunistically.

And the new share buyback program of EUR250 million, the same is true there, and this is fully financed out of existing resources. So that means we will not waste additional incremental debt. And this has to be also considered in how we're spending this money from a timing point of view.

Paul Sullivan - *Barclays - Analyst*

Okay, thanks.

Operator

Alain Oberhuber, MainFirst Bank.

Alain Oberhuber - *MainFirst Bank AG - Analyst*

Just on the pricing, obviously, you stated that there is no price pressure at the moment. But on the other side, do you already see in some segments possible positive pricing already?

The second thing is about capacity with your Adecco personnel. How much of incremental savings you can with the base you currently have increase your sales in order to have flat SG&A also into H1 next year?

And then on -- that's leading a little bit to the operating leverage of the Group. Patrick, could you repeat this operating leverage going through 2015 in order to achieve this more than 5.5% operating margin?

Patrick De Maeseneire - *Adecco SA - CEO*

Thank you, Alain. On the pricing environment, let's say pricing is in most of our markets rational. We don't see pricing pressure, but we also don't see a lot of room to increase prices.

Unemployment rates are still too high in order to increase prices. So pricing is only driven by scarcity, and at this moment, we cannot say that there is real scarcity. But overall pricing is rather rational and I hope you appreciate our development on the gross margin level.

On the capacity, I would say approximately 10%, slightly above. Of course, you know there are always imbalances from one market to the other. In some markets, we were able to take out somewhat more costs and are more flexible than in other markets. But let's say for the Group a number of minimum 10% is pretty realistic instead of excess capacity that we're still having.

And on the operating leverage, you know I've given this example in the past. If we are doing about EUR20 billion, and we are now at 18% gross margin, if we increase 10%, EUR2 billion in revenues, leads to EUR360 million in additional gross profit.

And if we then -- our cost base, if I round it up to, say, EUR700 million a quarter, EUR2.8 billion, if we do this with a cost increase of 5% which would be absolutely the maximum, considering the overcapacity that I just mentioned, this would be an increase of EUR140 million. So EUR220 million falling to the bottom line, which is 1% on EUR22 billion.

So we would then with that, we would reach 5% from the 4% that we have now, and that's why we are always saying that we need two years in a row good top line growth in order to achieve this. The operational leverage we have under control and I think our margin is already at a decent level to achieve it.

Is that okay, Alain?

Alain Oberhuber - *MainFirst Bank AG - Analyst*

That's okay. Just coming back, I remember you also said that you need almost similar growth than we see now after the last recession; i.e., almost double-digit organic, growth. So given that you gave this firm commitment today about this 5.5% operating margin, we could still expect good momentum going into 2014.

Patrick De Maeseneire - *Adecco SA - CEO*

Alain, what I can say there is we need high-end, single-digit top line growth two years in a row, and I've done the math for one year. And if we have now high-end, single-digit growth, whether it's at 7% or 8% or 9%, that's depending then of course on the gross margin again, the costs we have fully in control ourselves, depending on the gross-margin development, the top line requirement can be a bit different. But we need this two years in a row and then we will achieve the target.

Alain Oberhuber - *MainFirst Bank AG - Analyst*

Okay. Thank you very much, Patrick.

Operator

Tom Sykes, Deutsche Bank.

Tom Sykes - *Deutsche Bank Research - Analyst*

I wondered if you'd just answer some questions on the North American business. First of all, the North American exit rate at 2% compares to the exit rate of 4% in March. So I was just wondering what was causing that, please.

On the leverage in North America, I think in constant currency, you got about a 20% drop through, but the growth seems to have come from Perm and Professional, which would be higher margin. So I was just wondering why perhaps, although there was leverage, there maybe wasn't a little bit more leverage in North America.

And I don't know whether this is related or not, but if I look at the percentage of sales and the percentage of gross profit from IT, last year you had 11% of sales and 11% of gross profit in this quarter. And this year, you're 11% of sales but 10% of gross profit. Given that the IT business is growing, I wondered what the gross margin on the IT business, the new IT business is. And particular in your North American IT business, is that lower gross margin than the rest of the IT business overall, please?

Patrick De Maeseneire - *Adecco SA - CEO*

Tom, on the growth rates, North America indeed we were up 3% in the quarter with a 2% exit rate. I wouldn't be too worried about this. The Industrial business is still holding up well. It was plus 3% in the first quarter; it's plus 3% in the second quarter. And the Industrial is really the indicator also for the future business so I'm quite positive.

Fair to say that we have a positive growth in North American market and that some of our peers have a decline there. But if we look at the business development for us, a flat development in General Staffing, positive 4% in Professional Staffing, and again with the Industrial being up 3%, I think this is a good indication for the future.

I wouldn't be too worried about this 1% difference. Also knowing that the indicators are good and also seeing that our growth is coming from early cyclicals like logistics, semiconductors. Automotive still holding up. Chemicals slightly positive. So I would not be worried too much about the growth in North America.

On the leverage, Dominik will answer you.

Dominik de Daniel - *Adecco SA - CFO*

If we look to the margin development, we have plus 70 basis points [in] operating margin, and this is really primarily a function of I would say 50 -- so half of it is related to really higher productivity. The other half was a higher gross margin.

The gross margin is going up because on the one hand Perm is doing well; they're growing 10%. And secondly, our Solutions businesses, Pontoon, and also Beeline, so the US piece of them are shown in this result. They're growing very strongly and this is a fee business, so that helps of course the gross margin. And the rest is productivity increase.

If we then look the whole 70 basis points which businesses are driving this, that's of course on the one hand the IT business, because we invested in it and we always said as of Q2 we should see the operation leverage now coming. But it's also due to the fact of our investments into Beeline and Pontoon, which were also really the ramp-up investments last year and the strong growth leveraged now these investments to a certain extent. But also, the Finance business is doing well. So this is the combination of this 70 basis points increase in EBITA margin in North America.

If we look to the IT business isolated, the Temp margin in the IT business is a little bit down, that's true, but it's mainly a kind of client mix, but it's fair to say it's still on a very strong level. So our margin for IT business is very strong in the US, and is then a little bit down, but it's really not that we now -- like the last three quarters where we showed strong growth in our US IT businesses because of pricing, it's really just the client mix.

Tom Sykes - *Deutsche Bank Research - Analyst*

Thank you. Just on the drop-through, looks like about 20% on a constant currency basis in the US. Are you now --? What's the level of SG&A growth that you're putting in to North America? I appreciate the gross margin might be on a net basis higher because Perm and Professional are growing, but what's the level of SG&A growth relative to the top line growth now?

Dominik de Daniel - *Adecco SA - CFO*

Going forward, we have no need to add a lot of SG&A in North America, of course. What is happening is that Perm is doing well. There are also high commissions related to it because it is a really commission-related business and if this business is doing well, commissions going also up. But beside this, there are no intention to add cost into North America currently.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay. Could I just ask a quick final question? Was there an SG&A benefit from the CICE in France?

Patrick De Maeseneire - *Adecco SA - CEO*

There's a slight one, Tom, because of course, we have this also for our own people, but it's really minor.

Dominik de Daniel - *Adecco SA - CFO*

But they have also investment against this benefit, as we also spent money out of this because we have to use this money to offsetting this benefit.

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay, great. Thanks very much.

Patrick De Maeseneire - *Adecco SA - CEO*

Next question, please?

Operator

William Vanderpump, UBS.

William Vanderpump - *UBS - Analyst*

Just a couple from me following up on Tom's on the CICE in France. Have you, or could you say on the 80 basis points how much of that is CICE? And I've rather lost track of where you are on cost savings benefit in France. If you could update me on that, please.

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And secondly, on the Germany margin, I know you reference seasonal impact in the lower margin in Q2. I think there was some working day impact on the margin in Q1 as well. Could you talk about how much bounce-back is due to come through in the second half and if we're going to be seeing a sort of 8%/9% margin in Q3 as we did last year?

Thanks.

Dominik de Daniel - *Adecco SA - CFO*

If we first look to seasons, so the French operating margin was impacted [by season] positively by 100 basis points, I think, and this is very similar than Q1 because we used the same kind of methodology.

And this is still a new system and we have to assess this every quarter, and I would say given the historic experience which we had when the schemes changed, but also ongoing discussions which we have with our workers'council, because they are involved also, and how we spend the money for which training, IT spending and so on, we still want to wait throughout Q3 before reassessing our assumptions.

But that said, if the current trend would continue in the months to come, we would be quite optimistic to further increase the positive effect of CICE going forward.

But Q2, we said we still need more evidence from Q3 so we applied the same methodology like in Q1. So then the French margin in Q1 and in Q2 was positively impacted from CICE by approximately 100 basis points.

Patrick De Maeseneire - *Adecco SA - CEO*

The cost savings in France.

William Vanderpump - *UBS - Analyst*

Yes, please.

Dominik de Daniel - *Adecco SA - CFO*

The cost savings. So you know that the major cost savings are really kicking in from Q4 into Q1; so annualized EUR40 million. There are still some costs coming but they're really not that significant because the additional investment which we're doing in France was now this quarter EUR2 million; was not that much. And the payback it is rather a little bit longer than one year in France.

William Vanderpump - *UBS - Analyst*

Okay. Sorry, just to follow up on the CICE point, I think Randstad indicated they were taking about two-thirds of the benefit through the P&L. Could you say how much you're taking?

Patrick De Maeseneire - *Adecco SA - CEO*

50%.

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William Vanderpump - *UBS - Analyst*

You're at 50%. And would you also expect the benefit to increase by 1.5 times in 2014 when the terms around the legislation change?

Patrick De Maeseneire - *Adecco SA - CEO*

Yes.

William Vanderpump - *UBS - Analyst*

Yes, okay. Thanks. Sorry, on the German margins as well, please.

Patrick De Maeseneire - *Adecco SA - CEO*

Dominik, you want to add something on CICE?

Dominik de Daniel - *Adecco SA - CFO*

No, it's correct. Yes. The gross amount was some 4% to 6% and we have to assess this the end of the quarter.

William Vanderpump - *UBS - Analyst*

Okay.

Patrick De Maeseneire - *Adecco SA - CEO*

On Germany, indeed, like you pointed out, the margins are always lowest in the second quarter because of the bank holidays.

Please also take into account that we always said that equal pay -- with equal pay, we would preserve our margins in absolute value but that they would come down a little bit or somewhat as a percentage.

So -- and the last point for our second quarter is that although there was quite an improvement from the first quarter, we still had an impact of about 40 basis points year on year because of sickness.

Having said all this, we expect a strong high single-digit margin again as from Q3.

William Vanderpump - *UBS - Analyst*

Okay. Fine. Thank you very much.

Operator

Laurent Brunelle, Exane.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Two questions, please. First, can you maybe give us a guidance in some of these effective tax rates for the coming quarter? And second, can you explain why the [LHS] performance has sharply improved in Q2 at plus 6%, and what to expect moving forward, please?

Dominik de Daniel - *Adecco SA - CFO*

If we look to the tax rate, our guidance, and this is before this [week] event which from time to time happens, is around 30% for Q3; and also for the second half, 30%.

If we look to the Lee Hecht Harrison business, yes, the growth rate was quite good. We were gaining market share in this business like basically every quarter. And what's happening is that we see now also a pickup of this business in France.

France is contributing 20% to the sales of Lee Hecht Harrison. So you add this 50%, France, the second biggest market of 20%, and finally, we see that French [Union] (inaudible) and government I would say supporting more heavily needed restructuring, and we start to benefit from it because France was holding back. And also, the UK we have seen acceleration.

On the other hand, in the US, the decline rate went a little bit more down, and I think this is in line with the trend which we see in the economy, that the economy starts to improve. Then of course, the Outplacement business in North America slows down somewhat.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay. Coming back to the tax rate, your official guidance in Q2 was 30%, and every time you've been able to have a lower tax rate. So is it not too conservative or --?

Dominik de Daniel - *Adecco SA - CFO*

The point is the following. I have to give you a guidance based on the underlying tax rate. Of course, we have tax audits and we have Statute of Limitation, and these kinds of discrete events can happen every quarter. And if you say it was always too high, that means we have done always a good job to manage these discrete events.

And there was also one discrete event last quarter which led then the tax rate to 26%. But the underlying tax rate will be 30%, and if there is a discrete event then it could be lower, could be higher, but I can only judge which I know today, and from today's point of view it's 30%.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Sure. Thank you very much.

Operator

Michael Foeth, Bank Vontobel.

Michael Foeth - *Bank Vontobel AG - Analyst*

Just two questions from my side. I think you guided for EUR10 million restructuring costs in Q2 and reported only EUR2 million. I was just wondering if there is -- if that's just an accounting thing, or if there are actual shifts in your restructuring plans, or delays basically.

And the second question is regarding your bond. You said that part of the bond issue you made is for refinancing obviously existing bonds which is maturing in April 2014, if I have it correctly. Do I assume correctly that you do not expect to pay that back earlier?

Patrick De Maeseneire - *Adecco SA - CEO*

On the restructuring, when we said EUR30 million for the year, we said approximately one-third for the data center consolidation in North America, approximately one-third for France and one-third for the other countries, and we are sticking to this.

Of course, the data center consolidation, more will come in Q3/Q4, so -- and this might be overall a little bit less and we might then have a little bit more in France, but we are sticking to the EUR30 million. We have done now EUR13 million so far, so EUR17 to come. We're sticking to that amount for the year. It's not going to be more, and so we're sticking to the EUR30 million.

Dominik de Daniel - *Adecco SA - CFO*

Regarding the bond repayment, we raised this money in order to basically refinance the bond which is due in April next year given the fact that we believed that this is a very attractive interest rate level to make long-term financing. There's 2.75% coupon.

Now regarding earlier bond repayment, you have to consider that if a bond has a remaining lifetime of less than 12 months, they basically end up in money market portfolios, and it makes economically not really sense to touch them again. So it's better to wait until the end.

What we have done before this kind of maturity of less than one year was happening we were buying back part of this bond on the market when liquidity was available.

Michael Foeth - *Bank Vontobel AG - Analyst*

Okay. Thanks for that.

Operator

Matthew Lloyd, HSBC.

Matthew Lloyd - *HSBC Global Research - Analyst*

Just a quick question. When you made your outlook statement about things that are feeling a bit better, did you have a chance to speak to any of the branches or countries about what order intake was like, shift patterns?

You should -- six weeks; you should probably have a feel for blue collar shift patterns in France and the US for September. Do they feel stable as well or perhaps a little better? Just to try and get a feel for what September, the big month, will be like.

Patrick De Maeseneire - *Adecco SA - CEO*

I would say, if you look at our exit rates and our development, I would say it was -- it's still pretty stable. And September is indeed the important indicator, but based upon feedback from our different countries, from the different branches, based upon feedback from our customers, especially the export-oriented ones, yes, we can stick to what we are saying that there is a gradual improvement here.

Matthew Lloyd - *HSBC Global Research - Analyst*

And just one quick follow-up question. Most of the vacancy data around the world looks stable or perhaps a little better. The last printout of France was truly really quite scary in that it can be volatile. And Randstad talked about slightly weaker exit rates in France. Is there a chance that France is the exception to the rule?

Patrick De Maeseneire - *Adecco SA - CEO*

You're absolutely right. If you look now that Italy turned flat, that Iberia is almost turning flat and will turn positive in the second half of the year, those two countries, so Southern Europe doing better.

France is clearly behind in Europe. That's also not a surprise because the reforms in France were introduced much later. I would say it's still one of the countries where a lot has to be done on productivity. It's the country with a 35 hours week, and as long as they stay there, this country will struggle with increased productivity.

So France will certainly be -- I would not say the exception because gradually we also see some improvement there, but it will certainly be the country where we turn positive at the latest in Europe.

Matthew Lloyd - *HSBC Global Research - Analyst*

Thank you very much.

Operator

(Operator Instructions). William Vanderpump, UBS.

William Vanderpump - *UBS - Analyst*

Sorry, just one more from me on the gross margin in Q3 and Q4. I might have missed that, but is there any reason to see anything different from the trend in Q2 of gradual improvement year on year? Could you give us an outlook there, please?

Dominik de Daniel - *Adecco SA - CFO*

From a year-on-year comparison, yes, it should be basically pretty similar. If you would look sequentially just from a seasonal point of view from Q2 to Q3, if you look to the normal seasonality, that can -- the overall gross margin is a tiny bit higher.

And it's a function of a better Temp gross margin, of course, because in Q2 we have all these bank holidays in countries like Germany or Sweden or others. And this stronger Temp margin sequentially is partly offset by the fact that services like Perm, but also like Outplacement, they are the seasonal impact of Q3, it's weaker. So sequentially, it should be a tiny bit up, that overall gross margin.

William Vanderpump - *UBS - Analyst*

Okay. Thank you very much.

Operator

Gentlemen, there are no more questions at the moment.

Patrick De Maeseneire - *Adecco SA - CEO*

So, ladies and gentlemen, if there are no further questions, I would like to close this call by thanking you for your interest in our Company and giving you rendezvous for the November 6 when we announce our third quarter results.

Thank you again. Have a good day or a good evening. Bye-bye.

Dominik de Daniel - *Adecco SA - CFO*

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 disconnect your lines.

Goodbye.