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Adecco Group AG (ADEN.CH)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Q2 Results 2020 Analysts and Live Webcast Conference Call. 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.

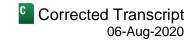
Nicholas de la Grense

Head of Investor Relations, Adecco Group AG

Good morning, everyone, and welcome to Adecco Group's Q2 2020 Earnings call. With me today are Alain Dehaze, group CEO; and Coram Williams, group CFO. Before we begin, as usual, please review the disclaimer regarding forward-looking statements on Page 2.

Looking at the agenda on slide 3. First, Alain will give an update on how we're managing the COVID-19 crisis and a summary of the key highlights from Q2. Coram will then review the financial performance in more detail and provide some outlook commentary on Q3. Alain will then give some brief closing remarks before we open the lines for questions. Alain, over to you.

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Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, Nick, and good morning, ladies and gentlemen. Welcome to our second quarter results analyst and investor call. Let's begin immediately with an update on how we are navigating the crisis.

The second quarter was an extremely challenging quarter from both an operational and a financial perspective. The public health and economic crisis linked to the COVID-19 increased, shutting down our clients' activities and all branches. It was the most difficult quarter we have faced in the history of the company, and I'm very proud of how our colleagues rallied together to ensure that we continue to serve our customers and keep our people safe. Not only did we maintain business continuity, we also delivered a solid financial performance in very difficult circumstances.

As the crisis shifts into the next phase, it is worth reflecting on some of the things we have learned so far. First, the investments that we have made in upgrading our IT infrastructure and digital capabilities have proven invaluable. We have been able to seamlessly switch to servicing our customers remotely and continue to support more than 20,000 colleagues and 30,000 associates to work from home, something that not all of our competitors have been able to do.

Second, the value that our industry provides is widely recognized. Since the beginning of the crisis and in every country, temporary staffing and HR solutions has been designated an essential industry. Indeed, we have already facilitated the reemployment of almost 100,000 temporary associates since the low point of the crisis in April. And clients more than ever recognize the need for workforce flexibility and agility.

Third, our balanced portfolio is a strong asset in volatile times such as this, with part of our portfolio like LHH able to capitalize on pockets of growth.

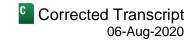
Finally, we have seen that our strong balance sheet and capital structure is a differentiator as smaller competitors have faced financial difficulties and clients reassess the resilience of their suppliers. So, it has been a challenging quarter, but one in which we have been able to show our strength.

Let's look now at how this has translated into our financial performance. While revenues were sharply lower in second quarter linked to the macroeconomic environment, we performed ahead of the market in a number of key countries, including France, Italy, Japan and Spain. Our gross margin was resilient, down only 10 basis points organically, illustrating the strength and balance of our portfolio. We also manage our cost base with agility, remaining solidly profitable in the second quarter with an EBITA margin of 1.8%. And a strong focus on collections resulted in very good cash flow with a cash conversion of 145%.

Despite the crisis, we made good progress with our business transformation and strategic developments. In fact, we have been leveraging the crisis to implement new systems and tools at a time of reduced client activity. The recent implementation of our integrated front office tool was an enabler of the growth in Japan, and we continued the InFO rollout in Spain and France during the second quarter. We also digitized our PERFORM methodology to adapt to the remote working environment and to ensure continuing global deployment.

We also continue to innovate. General Assembly is doing its part in helping workers upskill and reskill during the crisis through its free Fridays and community reskilling initiatives. Adia technology is being leveraged in new segments and across the group. So, even [ph] tough (00:06:05) demand in the ventures is subdued by the crisis, we have continued to develop these important sources of future growth.

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And I would now like to hand over to Coram to discuss the financial performance in more detail.

Coram Williams

Chief Financial Officer & Member of the Executive Committee, Pearson Plc

Thank you, Alain, and good morning, everybody. Before I begin, I'd like to say that these are very challenging times. Nevertheless, it's a great privilege to be delivering my first set of Adecco Group quarterly results. Let's start with the revenue trends in Q2. Revenues in the second quarter were down 28% on a trading days adjusted basis.

You'll recall that last quarter, we said we expected April to be down approximately 40%, which was a pre-monthend close projection. In fact, April came in better than expected at minus 33%, and we saw a gradual, but continuous improvement as the quarter progressed, with June down 26%. The trend of gradual improvement continues in July.

Let's now look at the development by region. In Europe, revenues were down 35%, seeing the most significant impact from the crisis, which hit Europe earlier and where the lockdowns were very strict. Lockdown measures were less strict in North America, resulting in a lesser revenue decline of minus 27%. It's worth noting that the US hasn't seen the same degree of improvement in trends that we see in Europe, and therefore, we're watching developments there carefully given the rising level of infections. The rest of the world outside these two regions was more resilient, down 4% with continued growth and strong performance in Japan.

Looking at the country revenue results in more detail on slide 9. France experienced the deepest decline in Q2, down 44% driven in particular by client shutdowns in automotive, manufacturing, construction and logistics. France was the country that implemented the most stringent lockdown measures and, hence, had the steepest drop in activity. The good news is that as the economy has restarted, we've seen our business improve significantly and France is now trending closer to the average of the group.

We also saw more resilient performance in Professional Solutions, down 29%. That resilience was particularly evident in Modis, our IT and engineering consulting business. In North America and UK General Staffing, revenues were down 28%. North America was down 30%, which was broadly in line with the market trend in the quarter. In the UK, revenues declined 25%, driven by lower demand from small and medium clients in response to COVID-19.

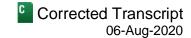
In North America and UK Professional Staffing, sales were also down 28% in the quarter. Our US professional business declined 25%. We have strong professional businesses in finance, office, legal and engineering. But IT has clearly been the outperformer during the downturn and we are relatively underweight in that sector compared to our large global competitors.

The UK is impacted by a few negative developments: the COVID-19 crisis, lower client demand ahead of the planned implementation of the IR35 regulation, and continued Brexit-related uncertainty. For these reasons, the trend in June and July continues to soften.

In Germany, Austria and Switzerland, the rate of revenue decline was 30%. But Germany and Switzerland were impacted by lower demand from clients in the automotive, transportation and manufacturing sectors. In Benelux and the Nordics, the decline was minus 35%. Across the region, we're more exposed to blue collar, which was more impacted by client shutdowns.

In Italy and Iberia, revenues declined by 23% and 26% respectively driven, as in most of Europe, by lower demand from manufacturing and automotive clients. In both countries, we performed ahead of the market. Japan

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had a very strong performance, growing through the pandemic with Professional Solutions particularly strong. We very successfully navigated the implementation of equal pay, and I'm also pleased to see the productivity improvements coming from the rollout of the new front office tool in Q1.

In the Rest of World, performance was mixed. In India and Australia, the declines were mainly driven by exiting certain low-margin business. Asia was impacted by COVID disruption and also unrest in Hong Kong. Eastern Europe and Latin America were relatively resilient.

In Career Transition and Talent Development, LHH performed well, down 2% due to lower Talent Development business. Career Transition was up in the quarter, and we expect it to accelerate from here as companies start to make permanent workforce adjustments in response to the crisis. We're well positioned as the global leader, and indeed, we had some important wins during Q2.

General Assembly declined by 11%, impacted by the temporary closure of our campuses as a result of the lockdown. While we can deliver the full curriculum of immersive full-time courses remotely, the short courses and events that are reliant on our campuses have stopped and enterprise clients are postponing some trainings. Structurally, we do expect GA to emerge strongly from the crisis as digitalization trends accelerate in the education sector.

Turning now to the gross margin on page 10. There are some large swings in the bridge this quarter given the diverging performances of the different service lines. I'm pleased to say, however, that the net impact was a very resilient gross margin performance, down only 20 basis points on a reported basis and 10 basis points organically. This was supported by the strength and breadth of the portfolio.

Temporary staffing had a negative impact of 40 basis points due to higher bench costs relating to COVID-19 and mix effects as large and on-site clients were more resilient than the small and medium. We maintained our pricing discipline in the quarter. Permanent placement had a 60 basis point negative impact. That's a fee business with close to 100% gross margin. So it has a disproportionate impact on gross margin when it declines.

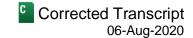
On the positive side, we have a large career transition business that tends to go in the opposite direction and which added 70 basis points to gross margin in Q2. We also had a positive contribution from outsourcing and other activities, which proved resilient and added 20 basis points to gross margin.

Let's now look at EBITA. We remained solidly profitable in a very tough environment. The margin was 1.8%, down 270 basis points or 250 basis points organically. That was largely driven by higher SG&A expenses as a percentage of sales.

Whilst we managed our cost base very well in Q2, we still see a material impact on the margin as a result of the revenue decline. We also keep investing in the strategic agenda. We continue to roll out new technology and to develop new tools for future productivity to deliver on the GrowTogether agenda. And we maintained our investment in the ventures.

Whilst Adia and Vettery have been impacted in the short term by the crisis, we're confident in their longer-term potential. However, we made the decision to exit the YOSS brand as a stand-alone business and to consolidate our gig economy activities within our broader digital product portfolio, which we believe makes us better positioned to capitalize on the opportunities in the freelance space.

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Looking at the profitability by market, I'm not going to go through the entire list because the theme is pretty clear. The crisis impacted the profitability in most regions, but we did a good job of partially mitigating that through agile cost management. France was most negative due to the very severe drop in sales. Remaining EBITA positive there was actually a very creditable result.

Germany was also particularly impacted because of the bench model there, which hurts us when idle time rises. Note that in North America, UK and Ireland Professional Staffing, the margin decline is affected by both the Soliant divestiture, which reduced the margin by 120 basis points, and the steep drop in permanent placement. In Japan, we delivered record profitability, driven by business mix, pricing and productivity improvements from the new integrated front office platform. Finally, in Career Transition and Talent Development, the continued improvement is coming from good operating performance at LHH.

On slide 13, we see the SG&A development relative to sales and gross profit. Overall, we managed our SG&A with agility, reducing costs by 16% organically. This came primarily through lower personnel costs and a significant reduction in discretionary spend, whilst ring-fencing our strategic investments. The use of employment support schemes reduced SG&A by around €30 million in the quarter or 4%. Overall, we achieved an organic recovery ratio in the quarter for 44%.

Turning now to the cash flow and the balance sheet on slide 14. Our cash flow is countercyclical, which was clearly evident this quarter. While the nature of the current crisis meant this was not automatic, our teams did an excellent job of collecting our receivables on time and in full, resulting in a large working capital inflow.

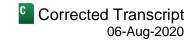
Cash flow from operations was, therefore, up 136% compared to prior year at €342 million. Rolling four-quarter operating cash conversion stood at 145%. I'd like to note that the cash flow number is also rather clean. At the beginning of the crisis, we took advantage of some opportunities to defer tax and social security payments, but we accelerated repayments during this quarter as the trading environment improved. We did this because we felt it was the right thing to do and to avoid storing up future cash outflows at a time when all being well, our business will require working capital to fund a return to growth. The impact of this was a net outflow of €31 million in Q2 2020.

Net debt-to-EBITDA at 0.6 times was up modestly due to our dividend payment in April and lower EBITDA. I think it's important to also remind you of some things that we outlined about our capital structure and liquidity last quarter. We have €1.5 billion of cash on hand with 90% centrally available. We also have the €600 million RCF, which is undrawn and committed to 2025. There are no financial covenants on any of our financing instruments. Our debt maturity profile is well phased with limited short-term refinancing needs. And our investment-grade credit rating was recently reaffirmed, and we successfully issued bonds in May to pre-finance 2020 maturities.

Coming to the outlook, as I mentioned earlier, the revenue trend improved through the second quarter, with June down 26% trading days adjusted and July further improving. The recovery is gradual and may be subject to ups and downs as localized restrictions are imposed and lifted. We will remain price-disciplined and we'll continue to manage our costs in an agile way to protect profitability, while investing in our transformation and areas of growth. We anticipate the recovery ratio will be a little lower in Q3, around 40%, as utilization of support schemes is reduced and as colleagues return from furlough in response to higher activity levels. Our focus on collecting receivables will remain key.

And with that, I'll hand back to Alain.

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Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, Coram. Coming now to the concluding messages. The second quarter was a challenging quarter, but one in which the group showed great resilience and agility. We are successful in navigating the COVID crisis, ensuring business continuity and safeguarding the health and the well-being of our colleagues, candidates and associates, and delivering resilient gross margin and agile cost management to protect profitability. There are early signs of improvement in the revenue trends as economies reopen. While the nature of the crisis and continuing uncertainty means the recovery will be gradual and potentially lumpy, clients recognize the value of our flexible HR solutions more than ever.

The diversity of our portfolio is a clear strength in the downturn. Career Transition is growing and will accelerate in the second half. Outsourcing and Talent Development is proving more resilient. Combined, these solutions are around one-quarter of our business in gross profit terms.

As we manage the crisis, we have maintained our strategic focus. GrowTogether investments and progress continue with the successful launch of new tools in the second quarter and more planned for the second half and next year. While the ventures are impacted by the crisis in the short term, both General Assembly and the Digital Ventures are long-term beneficiaries from the acceleration of digitization post crisis.

Finally, and most importantly, I would like to sincerely thank our valued customers for the trust in us throughout this historic crisis, and to express my gratitude to our employees and associates for their commitment and tireless work in remarkably challenging circumstances.

With this, I would kindly ask the operator to open the line for your questions.

QUESTION AND ANSWER SECTION

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

Paul Sullivan

Analyst, Barclays Capital Securities Ltd.

Yeah. Good morning, everybody. Three for me. Firstly, just the usual question on your thoughts on gross margin trends into the third quarter, the moving parts there, and your thoughts on whether I think [ph] if (00:23:26) better temp price discipline can hold.

And then secondly, as we emerge from lockdown, are you seeing any sort of major trends or variances between geographies worth noting, and various employment schemes, do you see those distorting the recovery, if at all?

And then just finally for me, Alain. I mean, any thoughts on sort of strategic direction going through this? And how has this crisis made you think differently in any way? Thank you.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, Paul. I suggest, Coram start with the first question, and then I will take the second and the third.

Coram Williams

Chief Financial Officer & Member of the Executive Committee, Pearson Plc

Perfect. Thanks, Alain. Good morning, Paul. You can see from the bridge in Q2 that the moving parts on gross margin are more volatile than usual. And that makes firm guidance going into the next quarter pretty challenging. But let me give you a sort of a few pointers to try and help you project it going forward. Firstly, M&A, I think, will have a similar impact in Q3 – similar negative impact driven by the Soliant divestiture, which is about minus 20 basis points.

Secondly, FX should be neutral to slightly negative, and that's based on what we're seeing in terms of the recent strength in the euro. Thirdly, if you look at what happened in Q2, perm, which was a negative, and Career Transition, which was positive, essentially offset, and I think it's a reasonable assumption for Q3 that you would continue to see that, although, obviously, that does depend on the revenue mix. And then fourthly, temp was negative 40 basis points in Q2. I think you should assume that will likely continue to be negative in Q3, given that we've got bench costs and other costs weighing on us there.

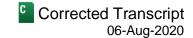
I think if I step back, the key point here is that overall, I think the balance of the portfolio will help to mitigate the pressure from perm and temp in much the same way as it has done in Q2, where as I mentioned we were 10 basis points down organically. So, I hope that gives you a steer.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Good. On the second question and major trends, lockdown, employment scheme and so on. If I step back, what we are seeing in this crisis is that many or the vast majority of the countries have copied and almost passed what Germany and Switzerland have done during the 2008, 2009 crisis. So, remember, they put this temporary

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unemployment scheme at work and this has allowed them to rebound quite fast after the crisis. And in this crisis, this model has been put in place almost all over Europe, including UK, but also in the US.

Now, going forward, the name of the game is to avoid any mass unemployment for the government. And you see all kind of discussion going on in the different countries, which is about how to synchronize the recovery of the various economies and, at the same time, keep the right type of support. If I take, as an example, the discussion in the US right now, it is not really about canceling this federal state support. The discussion is about, okay, should it be \$600 per week or \$200 per week so that we make sure that the people are going back at work. And there is the same type of discussion in UK, in France, in Spain.

So, governments will gradually – that's my expectation, will gradually decrease the amount of support when they see that the economy is recovering. And that's exactly what we are seeing. We see a gradual improvement of the various economies, weeks after weeks, month after month. But we expect this recovery being nonlinear and bumpy, because especially after this period of holidays you see, in many countries, the infection rate going up. You start to see some localized lockdown.

Personally, and as a company, we don't expect the same kind of lockdown we have seen in April and May with full economies being put in lockdown. It will be much more localized, temporary, something we see right now in Melbourne in Australia. That's the type, I think, of lockdown we are expecting.

Now, regarding your strategic direction, and providing I understand well your question, Paul, yeah, we strongly believe in the megatrends, and we strongly believe that, yes, if in the short term our revenues and the demand is going down, going forward, especially after this – the type of volatility, ambiguity and clarity we are going through, customers will want to have more flexibility in their model, on one hand. And they will want also to have, and we see that already, they want to work together with well-capitalized, large companies.

And we had to jump on the large customer in the UK, because one of their suppliers were bankrupt, and we had to take over, and we have done that. We had to jump in France because some companies were unable to work out of the premise because their system were not able to recruit, to invoice and so on. And so, that kind of environment is giving us, yeah, some kind of competitive advantage to grab market share and gain forward.

And if your question or part of your question is about M&A, we will stick to what we have already done. We will stick to the three criteria that we have. We will continue to look at opportunities, like we have done in the past, provided that they are presenting three criteria. We should be a better owner than the previous owner. We should be able to generate synergies, both intangible and tangible. And third, it should be EVA accretive or EVA positive in a maximum period of three years.

Coram Williams

Chief Financial Officer & Member of the Executive Committee, Pearson Plc

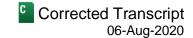
And just one point from me to add to everything that Alain has said. The recovery is broadly following the reopening of economies. And so, what you see is strength in places like Italy, which are coming back. And indeed, as I mentioned in my comments, France, which was one of the hardest hit, is actually now pretty close to the group average because of the way in which it's recovering. And if you look at the way economies are coming back, it gives you a sense of the sort of patterns we are seeing geographically.

Paul Sullivan

Analyst, Barclays Capital Securities Ltd.



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And I'm sorry. And just to follow up on that. It doesn't sound like you're seeing any distortion in terms of the pace of recovery from these – for the existence of this furlough scheme?

Coram Williams

Chief Financial Officer & Member of the Executive Committee, Pearson Plc

No. And a couple of points on that. I mean, firstly, the schemes are there to protect jobs in the short term from the systemic shock of what's happened. But they're not distorting the demand that we're seeing. And as Alain mentioned in our comments, we've put 100,000 temps back to work since the crisis began. So, it shows you that the demand is there and certain sectors, in particular, are coming back strongly.

Paul Sullivan

Analyst, Barclays Capital Securities Ltd.

Great. That's very helpful. Thank you very much.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, Paul.

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

Anvesh Agrawal

Analyst, Morgan Stanley & Co. International Plc

Hi. Good morning, everyone. I got three as well. First, Coram, given you have, sort of, taken over the reins recently, any sort of initial comments from you on the strength of the business and areas that you will look to sort of strengthen going forward. I appreciate it's an unusual time, but any sort of early comments would be quite interesting.

And then second is, have you sort of spotted any additional areas of savings during this pandemic? I mean, any sort of areas where you can see that going forward, structurally, there could be less manpower or you can, sort of, do with less resources?

And finally, about the comment of integrating YOSS into – I mean, doing away with the YOSS plan. I mean, historically, in one of the Investors Day, freelancing was sort of touted as a big opportunity in future. So, what was the rationale of sort of getting rid of YOSS as a brand? Thank you.

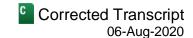
Coram Williams

Chief Financial Officer & Member of the Executive Committee, Pearson Plc

I'll take the first two of those questions, and maybe Alain will pick up on YOSS. And in terms of first impressions, I mean, you're right, it is an unusual time to take over in the role. But I have to say, my first impressions are very strong. And there are really sort of three areas I would highlight. Firstly, I think that the way in which we are navigating the COVID crisis so far is strong.

You can see that in the performance – the financial performance of the business. There's a number of markets where we have performed ahead of the market on revenues. And we have protected the profitability. There was a chance at the beginning of this guarter that we would be loss-making. And indeed, we are solidly profitable at the

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end of the quarter. And I think that's because of the agility with which the organization has responded to the challenges and adjusted the cost base.

We have strong cash flow and a strong balance sheet, and we have continued to invest strategically. So, I think my first point is around the way in which we are weathering the storms and continuing to remain focused on the strategic agenda. And the second thing I'd say is that this is a very well-managed business with a strong culture and values. I think the culture is entrepreneurial and that is powerful. And I think it's one of the things that has helped us in navigating that storm.

And then the third thing I'd say is that there is a very clear direction and strategy. And I think the transformation is well underway. GrowTogether allows us to operate the core business more effectively. And as you heard from our comments, it has continued to make progress. All of the initiatives are on track as we have gone through some – the challenge in the second quarter.

And I think, on top of that, I see that there are real opportunities in the talent solutions space through the upskilling and reskilling that is provided by General Assembly and through the outplacement and services that we provide via LHH. So, despite the circumstances, I meant what I said at the beginning, it is a real privilege to be here and I'm very excited to be doing the job, and I'm optimistic about the future long term.

In terms of the cost base, I mean let me give you a sense first of where the 16% reduction has come from and then I'll take that forward and talk a little bit about what I think will happen going forward in terms of structural changes to the base. Within the 16%, 4% of that reduction came from employment support schemes, as I mentioned in my remarks. Those support schemes exist to protect the labor market in the short term, and it was right to utilize them. The support will reduce going forward.

So, in Q3, we'd expect that to [ph] half (00:36:24) at about 2% and for it to come down further in Q4. Of the remainder, roughly 50% of the reduction has come from variable cost reduction. So, for obvious reasons, as activity reduced sharply in the quarter, there are certain costs that are driven by activity and go away, such as travel, marketing, commissions, et cetera. And the other half was really driven by permanent cost reduction, so areas where, actually, either because of attrition or because of actions that we've taken or because of nonrenewal of short-term contracts, actually, there's been a structural change, reduction in our FTE count and that helps us in terms of costs going forward.

When I think about the cost base in the future, it's quite early to predict exactly what shape it's going to take. But I think it's clear that there will be structural changes, for example, in the way in which people travel, which will bring savings. And clearly, we will adjust the rest of our cost base to suit the top line as we see it recover. And we have traditionally stuck to a 50% recovery ratio when we think about protecting gross profit in the downturn, but also as costs go back in on the upturn.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, Coram. Now, on YOSS and the freelance market. First of all, I would reiterate what I have said in the past. The freelance market is a huge market, about three times bigger than the temporary staffing market. So, basically, it remains extremely attractive for us because it is also about matching supply with demand. When we launched YOSS and we developed this platform, the purpose was to create a kind of generic platform.

Now after this experience we have done, we have seen that it was rather difficult to get to critical mass with a kind of generic solution and service offering. But it would be much more appropriate to leverage the learning, the

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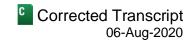


technology we had gone through with YOSS in the various brands. Because, yes, if you're an IT freelance, you will be more attracted by Modis than going to YOSS. If you are an interim manager, you will be more attracted to go to, for example, Badenoch & Clark interim management rather than YOSS.

So, that's why we had decided to, I would say, cut our losses, and that's the way we should do as entrepreneur, and integrate and develop the proposal through the verticals and through the brands. So, it's not that we are [ph] leaving (00:39:31) this freelance market, but that's just that we pivot and approach it in a different way.

Anvesh Agrawal Analyst, Morgan Stanley & Co. International Plc	Q
That's all very clear. Thank you so much.	
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
You're welcome, Anvesh.	
Operator: Your next question comes from Rory McKenzie from UBS. P	Please go ahead.
Rory McKenzie Analyst, UBS AG (London Branch)	Q
Good morning all. It's Rory here. As we look out	
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
Hi, Rory.	
Rory McKenzie Analyst, UBS AG (London Branch)	Q
to the kind of lumpy. Hello? Can you hear me?	
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
Absolutely.	
Coram Williams Chief Financial Officer & Member of the Executive Committee, Pearson Plc	A
Absolutely.	
Rory McKenzie Analyst, UBS AG (London Branch)	Q
Okay. Great. Yeah, as we look out to the lumpy post-COVID recovery, I have pretty different kind of fortune in the future. Could you kind of mayb group level to travel, hotels, restaurants, maybe that segment? And then business in those areas, or have you considered plans to do so?	be quantify the size of your exposure at a

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Alain Dehaze

declines.

Chief Executive Officer, Adecco Group AG

Yes. So, as you can imagine, some areas are more exposed than others. And what we have seen is that the biggest decline came, for sure, from hotel, catering and tourism, but we have a very limited exposure of 1% of our sales. Auto, auto was also one of the most hit sector, but it represent about 6% of our portfolio. Then it was followed by construction, because remember, some countries have decided to lockdown – like France, to lockdown completely this segment. It's about 5% of our segment. Also manufacturing, which is a higher segment, 15% for us; and finally, aerospace and defense, which is 1%. So, these were the segments with the biggest

Now, let's not forget that we had also good sometimes pocket of growth or limited declines, especially in logistics, especially for the logistics related to e-commerce, because e-commerce has been, for sure, and is still the winner in this COVID situation, that when you develop e-commerce offering, you need also the linked logistics, and we have been an important player in this. It's about 7% of our sales. For sure, pharma, even if limited for us, is 2%, with tech 6%, telecom and retail, because especially food retail has been quite strong. And these have been the sectors with limited decline or some growth.

Now, going forward, it is clear that we will see – we see permanently how the different markets, territories and also segments are developing and that we take and we will take always appropriate decision regarding rightsizing by country, by segment or service proposal.

Now, I think I do want – I don't want to elaborate here in this call too long. And if you want more details, you know that Nick can do it offline.

Rory McKenzie

Analyst, UBS AG (London Branch)

Okay. That was great. Thank you. And also thinking about kind of the future of the economy and maybe more the future of work. What do you think you might change in how your own company operates as you think about more remote working? I appreciate maybe Coram's experience of joining during lockdown, might be interesting out there.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Let's take [ph] perhaps (00:43:24) the macro, and then we can have the experience of Coram.

Coram Williams

Chief Financial Officer & Member of the Executive Committee, Pearson Plc

[ph] And then we can talk briefly (00:43:27) on the micro. Alain will talk on the [ph] macro (00:43:31).

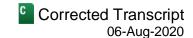
Alain Dehaze

Chief Executive Officer, Adecco Group AG

No, but I can share with you a study that we had done and published recently about two or three weeks ago. And we have surveyed 8,000 people in 8 countries, 8 – big countries, US, UK, France, Japan, Germany. And they were very clear conclusions.

First is that everybody speaks about the end of the 9 to 5, and especially because there is this kind of new universal ideal, which is a 50/50. So, people expect whatever the country, whatever the age, whatever the marital

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status, they expect a 50/50 work distribution, 50% remote, 50% on-premise, which means a lot, which means that to do this you need the right digital infrastructure, you need upskilling, reskilling, you need a new definition of productivity. This will be also very important.

Second is that 28% of the people have suffered from isolation and eventually also mental illness. And only 1 out of 10 managers has been able to cope with this situation of mental illness and so on. And again, it means that, going forward, leadership will need to be upskilled, reskilled, not only in digital capabilities, but also on how to manage a remote workforce, how to engage this workforce, how to motivate it when you are at distance. These were especially the key information. And if you are interested, we can send to you, it's a 120-page report with all the details by country, by segment, some very interesting. But I think these are the key conclusion of these pages. And again, Nick can send it to you.

Coram, how was it?

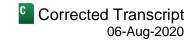
Coram Williams Chief Financial Officer & Member of the Executive Committee, Pearson Plc

Well, I've touched on my first impressions, and I think you can tell from the way I described it that despite the circumstances, it's been, for me, a positive start. I mean, I think in terms of my own personal experiences, I think Alain's points around work-life balance, how you think about productivity and how we reskill and upskill are actually crucial in this kind of environment, and [ph] there're things that are (00:46:12) both, I think, personal and interesting from a macro perspective.

And then the only other point I'd make, and Alain made it at the beginning of his remarks, is that the technology in the company has proved seamless. So, the single biggest challenge when one arrives is to get to know the organization and the people without traveling. And in that sense, I think the way in which our infrastructure has coped with 30,000 people operating virtually is very impressive.

Rory McKenzie Analyst, UBS AG (London Branch)	Q
Yeah. Appreciate it. Thank you very much.	
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
Thank you.	
Operator: The next question comes from Alain Oberhuber from Mair	nFirst. Please go ahead, sir.
Alain-Sebastian Oberhuber Analyst, MainFirst Schweiz AG	Q
Good morning, Alain, Coram and Nick.	
Alain Dehaze Chief Executive Officer, Adecco Group AG	A
Good morning, Alain.	

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Alain-Sebastian Oberhuber

Analyst, MainFirst Schweiz AG

Yes. Just two questions from my side. Could you go a little bit more into Career Transition and [ph] ad (00:47:08) placement? Do you expect this development to become positive already in Q3? And regarding the EBIT margin development, which was positive again. First, what do we expect this margin could be short term, i.e. for this year? And where do you think the [ph] op (00:47:26) EBIT margin has to be in the midterm? And the question

about you mentioned within that category an important - or important wins in Q2 2020. Could you elaborate a little

bit on that?

And the second question is just regarding the French market. So, did I understand you right that in Q3, we had an acceleration compared to the group in the recovery rate and that could be also the case in Q3 in France? Thank you.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Yeah. I will start with Career Transition. So, just about – a few things about, first of all, the sequencing of a contract at LHH, at Career Transition, so normally, companies will decide to restructure. They will work on their restructuring plan. They will then announce the restructuring plan. Either they have already negotiated with the workers' council or they will start to negotiate with the workers' council. And then we will come with the operationalizing of the support to the employees.

So when you look at the current situation, you have started to see some announcement during the summer, being in the auto, being in the aerospace industries, and we are all involved in them. But at this stage, it has been just announcement. And now, after the summer, we will come, I would say, into action, and we will start to help employees – their employees to find another job. And that's when we will start to invoice.

And so, that's why we have said, at this stage, I would say it's still limited also because it was rather difficult to see candidates, to meet candidates and so on, but especially because the traction and the operationalizing of the contract has still to come. And so, that's why we have said also we expect a double-digit growth in the third quarter with LHH because operation will start to gain traction.

Coram Williams

Chief Financial Officer & Member of the Executive Committee, Pearson Plc

So, let me pick up on the questions around EBITA margin. I touched in an earlier answer on the gross margin piece. To be clear, given the lack of visibility that we have, I'm not going to give a firm guide on EBITA, but let me talk about the sort of moving parts. We touched, obviously, on gross margin earlier, and I think what you should expect is to continue to see the balance in the portfolio to help us to mitigate the pressure in temp and perm.

On the top line sort of picking up the points that Alain has been making about the recovery. We saw through the quarter a gradual improvement every month. We -33% down in April, we were 26% down in June. There was a significant trading day adjustment between May and June, which means actually the trajectory is a little stronger than it seems from the numbers. And if I step back, what you're really seeing is an underlying improvement of 2 to 3 points per month. That's the kind of trajectory improvement that we're seeing. That continued in July and we would expect it to continue recognizing that given the nature of lockdowns and restrictions, it might be a little lumpy.

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So, that should help you, I think, on how you think about the top line. In terms of the cost base, I mentioned in my remarks that we would expect to see a recovery ratio in Q3 of around 40%. Now, that's a little lower than the 44% that we delivered in Q2, and that's because, actually, there are a couple of moving parts here. As activity comes back, as we bring staff back from furlough to meet client demand, you'd expect personnel costs to rise slightly.

I mentioned that the value of employment support schemes, which was 4% in Q2, were roughly half in Q3. And obviously, there are some discretionary costs, which went close to zero during Q2 as activity levels dropped, which will also start to come back in. So, that's why we're seeing that slightly lower recovery ratio in Q3. Again, if I step back and think about the future, we should definitely be achieving a 50% recovery ratio, both in terms of how we protect on the downside and, indeed, how we put costs back in the longer term.

And then also, I think the thing that you should think about in margin terms are the structural improvements in productivity that we will get, that we are getting from GrowTogether.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

And then on France, Alain, like we said, there had been the countries in Europe with the most strict lockdown, I would say. All the segments were on locked down. And so when they did start to reopen, for sure, they came back into the average of the group. We have seen that during the quarter, but we have seen that also in July. August is too premature.

Provided that there is no second wave and you see a lot of news on this, provided it stays like it is, yes, there has been – regarding the minus 44%, there has been an acceleration of the recovery rate to get back into the average of the group.

Alain-Sebastian Oberhuber

Analyst, MainFirst Schweiz AG

Thank you very much.

Alain Dehaze
Chief Executive Officer, Adecco Group AG

Thank you, Alain.

Operator: Next question comes from Oscar Val from JPMorgan. Please go ahead.

Oscar Val Mas

Analyst, JPMorgan Securities Plc

Yes. Good morning, everyone. Two quick questions from myself. The first one, you provided a July exit rate. Could you maybe talk about how perm is doing following the 45% decline in Q2 and if there's any catch-up in Q3?

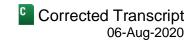
And then the second question is on Adia. Similar to what happened with YOSS, so Adecco's Adia is an app for the hospitality sector. How do you see that stand-alone app versus using the tools developed in Adia to support your other candidate apps? So, yeah, just those two questions, please.

your other candidate apps? So, yeah, just those two questions, please.

Chief Executive Officer, Adecco Group AG

Alain Dehaze

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I can perhaps start with Adia. So, with Adia, you are right, the initial positioning of Adia was on especially events, catering and so on. And yes, this segment has been together with the tourism and the hotel and so on, the most hit segment. So, that's why we have pivoted with Adia towards other segments.

We have been also, for example – we are also involved with the AB5 in the US, developing solution for all customers. And we are confident that it's also an opportunity to develop in an accelerated way other segment. And once the COVID situation would be beyond us, we will, for sure, have then more than one segment to cover. So, that's how we see it. Nothing to do, I would say, with YOSS and the scenario on YOSS, really a different positioning.

Now, on the exit rate for perm, Coram?

Coram Williams

Chief Financial Officer & Member of the Executive Committee, Pearson Plc

Yeah. So, minus 45% over the quarter, I think you should expect it to remain subdued in the short term, clearly, because of the economic uncertainty, it tends to impact that business upfront, while people are trying to understand what the trajectory might be for the economy as a whole. Remember, it's a small part of the business, about 2% in terms of revenues. And as I mentioned, when I was talking through the gross margin bridge, we have seen the pressure that it creates on gross margin offset by outplacement. So, I think that's the best way to think about perm.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, Oscar.

Oscar Val Mas

Analyst, JPMorgan Securities Plc

Okay. Thank you, guys. That's very clear.

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

Hans Pluijgers

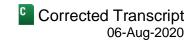
Head of Research, Kepler Cheuvreux SA (Netherlands)

Yes. Good morning, gentlemen. A few questions from my side. First, looking at clients' behavior and contract renewals, did you see some additional changes there through the quarter with respect to maybe some additional price pressure through the quarter, especially on the client side, but maybe also from competitors?

And secondly, of course, with the changes in work, have you also seen some impact on the renewal of contracts? What I mean is, are there some delays, maybe some contracts have been extended without any additional discussion? So, should you maybe expect something there going forward?

And then on your capital return policy, of course, you continued with paying your dividend. You already indicated that you have resumed the buyback, maybe could we think it through the year or maybe towards the end of the year? Anything new on that with the strong cash flow in Q2? Maybe can you come back quicker with that buyback? And lastly, a detailed question on Japan. Could you give, let's say, there the volume impact, because also, of course, you have increased wages due to equal pay? What was the development in volumes and price?

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Alain Dehaze

Chief Executive Officer, Adecco Group AG

Yeah. Many questions, Hans, today. So, regarding the clients' behavior, we don't see any material price pressure or price pressure change, both from the competition side and from the customer side. Usually, we have price pressure when the volumes are high and especially large customers are leveraging the high volume to negotiate – to renegotiate their pricing and fix their pricing for numerous years.

And you can imagine, at this stage of the activity, this is for them absolutely not the right moment to negotiate – to renegotiate price. And in the competition – for the competition in the vast majority of the market, it doesn't make sense to be price-aggressive in such a situation. So, this cover also your second question, renewal contracts, not really. For sure, we are very active with LHH. LHH as – because many customers are looking at their transformation, eventually rightsizing, downsizing, there we have a lot of activities.

Coram Williams

Chief Financial Officer & Member of the Executive Committee, Pearson Plc

Let me pick up on the other two questions, so the share buyback and Japanese volumes. I mean, in terms of the share buyback, as you know, we paused it at the beginning of Q2. We thought that was the prudent thing to do given the uncertainty in the world economic environment. As you said, we did pay the dividend because that clearly demonstrated with our commitment to a recession-proof dividend and related to 2019 results. But we paused the share buyback for prudence.

We are committed to restarting the share buyback, when appropriate. But I think there are two key questions here. Firstly, does our cash position support a repurchase, in addition to the working capital that we will require for any recovery? And secondly, perhaps, more importantly, do we have good visibility on the shape of the recovery? Can we actually model over a decent period of time to see what shape it will take? And at the moment, we do not have that visibility. So, it remains paused.

In terms of Japan, the volumes were down mid-single digits. We mitigated that on the top line through three things. So, firstly, the mix of the business, strength in Professional Solutions really helped us. We also managed our pricing very effectively. And as I mentioned in my remarks, there were productivity improvements as a result of the rollout of the front office tool. So, that's why the difference between volumes and revenues.

Nicholas de la Grense

Head of Investor Relations, Adecco Group AG

And conscious of the time, I think we have time for one last question. And if there are any remaining after that, please feel free to reach out to me directly. So, operator, one last question, please.

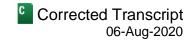
Operator: The last question comes from Andy Grobler from Credit Suisse. Please go ahead.

Andy Grobler

Analyst, Credit Suisse Securities (Europe) Ltd.

Hi. Good morning, everybody. Just one from me, given the time. You've talked a fair bit around Adia and YOSS and so forth. Can you give us just kind of a broader picture of where you are in your various digital initiatives, including the likes of Vettery? And I suppose, specifically with Vettery, at what point do you have to look at the goodwill? Is there a risk that that €56-odd-million has to be impaired if we don't see an improvement in the short term?

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Alain Dehaze

Chief Executive Officer, Adecco Group AG

So, first of all, on the activity, now it's different according to the business. Vettery, for sure, it's also in the permanent recruitment, and you see that permanent recruitment is hit in this period. But we are continuing to – especially to improve the quality of our platform. For us, it's – we stick to our commitment and our investment there, and the same with Adia.

Regarding the potential good – yeah, this is a digitization on the ventures. But I think it's also important to note that we are leveraging some of the learning points or technology into the base business. We have developed, for example, Quickmatch in France based on the Adia technology. We are rolling out in various countries the candidate app that we originally developed for Adia. And so, this digitization process is continuing on. And we have these digital twins, like Adia, like Vettery. But at the same time, we are leveraging the technology in our base business.

On the goodwill, Coram.

Coram Williams

Chief Financial Officer & Member of the Executive Committee, Pearson Plc

Yeah. In terms of the goodwill, I mean, as you mentioned, it's a relatively small number, and I think you can hear from Alain's description of where we're at on Vettery, but we feel confident about its medium- and long-term potential. And ultimately, that's what drives the calculation to keep that fair value on the balance sheet.

Alain Dehaze

Chief Executive Officer, Adecco Group AG

Thank you, Coram.

Andy Grobler

Analyst, Credit Suisse Securities (Europe) Ltd.

Thank you.

Alain Dehaze

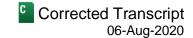
Chief Executive Officer, Adecco Group AG

Thank you, Andy, and thank you all for your great interest. I would suggest that for the remaining questions, you reach out directly to Nick and we will answer these questions.

Just as a closing statement from my side, thank you again, everyone, for having joined this call and for your questions. You have seen that while the economic environment remains challenging, we continue to navigate the COVID crisis very well. We think that the recovery will be gradual and bumpy, but we see early signs of improvement.

Since the trough, we have reemployed almost 100,000 associates, and clients recognize the need for flexible employment solutions today more than ever as a result of the crisis. We are not only waiting for the recovery, but actively pursuing growth in the pockets where it exists. And here, the strength and balance of our portfolio is a differentiator. We have taken the example of LHH with our talent development and outsourcing solutions.

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Now, cash flow in the second quarter was exceptionally strong, confirming the resilience of our business, and we will continue to manage the short term with agility, while maintaining our strategic focus, continuing to invest in our strategic priorities to ensure that the group emerge stronger from the crisis.

And finally, I would like to close by, once again, reiterating my sincere thanks to our colleagues and associates who continue to go above and beyond every day. 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.

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