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ADEN.VX - Q1 2012 Adecco SA Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, good morning. Welcome to the Adecco Q1 results 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's my pleasure to hand over to Mrs. Karin Selfors, 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.

Karin Selfors - *Adecco SA - Head of IR*

Good morning, and welcome to Adecco's first quarter 2012, results conference call. As always, Patrick, Group CEO, and Dominik, Group CFO, will lead you through the presentation today, followed by a Q&A session. Before we start, please have a look at the forward-looking statement.

Let's have a quick look at the agenda today. Patrick will give you an overview of the operational highlights; Dominik reviews the financials, after that. And then, Patrick will close with an outlook on our business, and then you can ask your questions.

With that, I will hand over to Patrick.

Patrick De Maeseneire - *Adecco SA - Group CEO*

Thank you, Karin. Good morning, ladies and gentlemen, and welcome to our Q1 results conference call. First, a quick glance at the highlights of the first quarter.

We are off to a good start, with revenues up 2% to over EUR5 billion. Organically, revenues were down 1%. We are behind the market in France, as we have a clear priority for profitability. Our revenue growth in North America continued to hold up well with 1% growth year on year.

In Germany and Austria, we are gaining market share, with strong EBITA margins. Also, the emerging markets continued to perform very well, with revenues up 15% in constant currency in Q1.

On the other hand, Southern Europe is clearly slowing. Both Italy and Iberia are in further decline. Growth in Professional Staffing is now outpacing General Staffing. The business mix is starting to move in our favor. This also shows in the gross margin. With an 80 basis point year on year to 18.2%, we had a strong development in Q1. Organically, the gross margin was up 40 basis points.

Costs continued to be very well controlled. As anticipated, SG&A was sequentially flat on an organic basis, and when excluding restructuring and integration costs.

EBITA, before one-off costs, was at EUR193 million, and the margin increased 20 basis points to 3.8% in Q1. Net income was up 12% at EUR112 million, and we achieved strong operating cash flow of EUR137 million, compared to EUR22 million in Q1 last year. We exited the first quarter of 2012 with an organic revenue decline of 1% in March, adjusted for business days.

Let's have a look at the organic revenue development by region. In North America, revenues were up 1% year on year. General Staffing grew 3%, while revenues in Professional Staffing were flat year on year.

In Europe, revenues in Q1 were down 3%. As mentioned before, revenue growth in Germany and Austria remained strong, up 10%, and ahead of the market. In France, revenues were down 10% year on year. I will go more into detail on France later in my presentation.

In Benelux, we performed slightly better than the market. As expected, revenue growth in Italy is now in negative territory, down 2% in Q1. Same picture in Iberia, where revenues were down 9%.

In the Nordics, revenue growth in Sweden was flat, and in Norway, still down year on year, but business is improving there. In the UK and Ireland, revenues were up 9% in Q1.

Rest of World, including emerging markets, was up 7%. In Japan, revenues increased by 2%. In Australia and New Zealand, revenues were up 3%, and the emerging markets continued to deliver very solid revenue growth of 15%, this driven by South America and India.

We go through our main markets now. In our largest market, France, revenues were down 10% year on year to EUR1.3 billion. By industry, revenues in construction and logistics were weakest.

Our Perm revenues were down 7% in Q1. We incurred EUR3 million restructuring costs in the quarter under review. These were related to our plan in France to combine the networks of Adecco and Adia under the single brand of Adecco.

The EBITA margin before these restructuring costs was 2.3%, down 30 basis points year on year. Revenues in March were down 10%, adjusted for trading days.

We are behind the market in France in terms of growth, as our focus is clearly on profitable business. Given the economic outlook for France, we are convinced that we are taking the right measures to ensure sustainable and leading profitability.

We are on track with our plan to merge the networks of Adecco and Adia. Talks with the workers' council are progressing, and we expect to come to an agreement in early fall. This move will allow us to further optimize the cost base through the planned reduction of over 500 FTEs.

We will further consolidate the branch network and work on the shared service center concept. As mentioned in March, the majority of the expected EUR45 million investment will be incurred in the second half of this year.

In North America, revenues were up 1% in constant currency to EUR964 million. Demand held up well in automotives, logistics and transportation, and from the technology sector, offset mainly by financial services.

Revenues in General Staffing increased 3% in constant currency. In Professional Staffing, the revenues were flat year on year, still held back by the IT segment, but we are starting to see the picture turn.

The US IT Professional Staffing business improved, and growth was almost flat year on year in Q1 of this year, while growth in Canada remains weak.

On the other hand, in both Finance & Legal and Medical & Science, revenues increased double digit. In Engineering & Technical, revenues were slightly down compared with a very good first quarter last year where revenues were up over 20% organically.

The Perm business continued to develop well, up 14% in constant currency in Q1. Once again, we achieved strong profitability. The EBITA margin increased by 70 basis points year on year to 4.4%, or up 40 basis points when excluding integration costs for MPS in Q1 last year.

Revenues were fairly stable during the first quarter of 2012, and in March, revenues were up 1%, adjusted for trading days.

Revenues in the UK and Ireland increased by 9% in constant currency, still driven by client wins in Q4 2011.

In the quarter, under review Perm revenues were down 10% in constant currency. Recall that in Q1 2011, Perm revenues were up 40% organically, driven by initial recruitment related to the summer Olympics 2012.

The EBITA margin was 2.4%, up 60 basis points versus Q1 2011, or up 50 basis points excluding integration costs for MPS in Q1 last year. For Q2 and Q3, our profitability will be impacted by sponsoring costs for the summer Olympics in London.

Revenue growth in Germany and Austria continued to develop very well. Revenues grew 12%, or 10% organically. Main drivers by industry were again automotives, as well as aerospace. General Staffing grew 10% organically, and Professional Staffing was up 14% in Q1.

In the quarter under review, we had EUR3 million restructuring costs, as we needed to make some adjustments on the cost base in the Adecco branded business. The EBITA margin before restructuring costs was 8.3%, up 20 basis points compared to Q1 last year.

In March, revenues were up 9% organically and adjusted for trading days after growth of 14% in January and 8% in February, so we are starting to see somewhat slower growth in Germany now.

In Japan revenues were up 13% in constant currency, or 2% organically, to EUR431 million. VSN, which we acquired at the beginning of January this year, was included for a full quarter.

The EBITA margin was up 30 basis points to 5.8%. VSN added 60 basis points [to these brands] EBITA margin in Q1. Revenue growth in Japan will slow, as some outsourcing projects were successfully completed, and will no longer contribute as from the second quarter.

Finally, we turn to Adecco's development by business line on a constant currency basis.

In Q1 2012, revenues in our General Staffing business were down 1%. The Industrial business was down 4% in Q1. Growth remains strong in Germany & Austria, where revenues were up 11% organically year on year. However, in France, revenues declined 11%; and in Italy, revenues were down 3%. Industrial revenues in North America held up well, and were flat after a 6% decline in Q4, 2011.

The Office business was up 3% this quarter. In Japan, revenues were up 2%, and in North America revenues increased by 6%. On the other hand, revenues in the UK & Ireland were down 1%, and in the Nordics down 5%. In France, Office revenues declined by 11% year on year.

Revenues in Professional Staffing increased by 6%, or 3% organically in Q1. Germany & Austria and the UK & Ireland continued to deliver double-digit revenue growth. In North America revenues were flat, and France was down 2%.

Our Solutions business increased by 28% in constant currency, or 1% organically, still held back by the counter-cyclical outplacement business of Lee Hecht Harrison. To date, the integration of DBM has progressed very well, and the profitability of Lee Hecht Harrison remains very strong, as the EBITA margin pre-integration costs increased to 30.2% from 19.8% in Q1 last year.

Revenue growth in MSP and VMS also continued to develop very well, up strongly double digit.

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

Dominik de Daniel - *Adecco S.A. - Group CFO*

Thank you, Patrick. Good morning, ladies and gentlemen. I will start with the overview of the P&L.

In Q1, 2012, we had revenues of EUR5 billion, up 1% in constant currency, and down 1% organically. The gross margin was at 18.2% in the first quarter this year, up 80 basis points. Organically, the gross margin increased 40 basis points year on year, or 20 basis points sequentially.

SG&A was up 5% in constant currency compared to prior year. Organically, and before restructuring and integration costs, SG&A was up 1% year on year. Sequentially, the cost base remained flat on organic basis and before restructuring and integration costs.

EBITA was EUR182 million. Excluding the restructuring and integration costs in Q1 2012, EBITA was at EUR193 million, and the margin was 3.8% this quarter, up 20 basis points year on year, (technical difficulty) the EBITA margin before integration costs in Q1 last year. Net income in the quarter under review was EUR112 million.

Please have a look at the year-on-year gross margin evolution. The Group's gross margin was at 18.2% in Q1, 2012, up 80 basis points year on year. Temporary Staffing had a positive impact of 20 basis points on the gross margin in Q1, 2012.

The business mix is starting to move in our favor. Professional staffing is outgrowing General Staffing, and we benefited from a country mix perspective.

Perm Placement positively contributed to the Group's gross margin with basis points in Q1. Our Perm revenues were up 2% organically in the quarter under review. The Outplacement business had a neutral impact on the Group's gross margin, and other activities had a positive impact of 10 basis points in Q1, 2012. Acquisition added 40 basis points to the gross margin this quarter.

Now let me discuss how our cost base developed in the first quarter this year. We continued to manage our cost base very tightly. As anticipated, our cost base was sequentially flat on organic basis and before restructuring and integration costs.

Our Q1 2012 results included EUR8 million restructuring costs, of which EUR3 million related to France, EUR3 million to Germany, and EUR1 million each of Benelux and Iberia. We had EUR3 million integration costs in both Q1 2011 for MPS and Q1 2012 for DBM. Year on year SG&A increased by 5% in constant currencies. Organically, before restructuring and integration costs, SG&A was up 1%.

On an organic basis, FTEs were up 1% year on year, and sequentially, FTEs were down 2%.

Integration process of DBM is going very well. We continue to target total synergies of EUR20 million, and expect those to be fully realized by the end of 2012. For Q2, 2012, we expect integration costs related to DBM to amount to approx EUR3 million. We continue to manage our cost base very tightly going forward, and seek optimization potentials whenever possible.

Out of the EUR45million new investments which we announced for France, we expect to incur costs of approx EUR5 million in Q2, 2012. The majority of the expected EUR45 million investment will be incurred in the second half of this year. SG&A for the Group in the second quarter of 2012 is expected to remain approx in line with the first quarter 2012 on an organic basis, and before integration and one-off costs.

Moving on to the balance sheet. At the end of the first quarter, we had cash of short-term investments of EUR890 million. DSO was 54 days in the first quarter this year, unchanged compared to Q1 2011. Goodwill and intangible assets amounted to EUR4.1 billion at the end of March, 2012. At the end of the first quarter, 2012, Adecco shareholders' equity was at EUR3.8 billion.

Turning to the cash flow statement. The operating cash flow generated in the first three months of 2012 amounted to EUR137 million compared to EUR22 million in the same period last year. Cash used in investing activities was impacted by the purchase price consideration for the acquisition of VSN Japan at the beginning of this year.

The Group invested EUR87 million net of cash acquired for VSN. CapEx was EUR22 million in Q1, 2012. Cash flow from financing activities was EUR331, million mainly impacted by the issuance of a CHF350 million four-year bond at the beginning of February this year.

Net debt at the end of March 2012 was EUR874 million slightly down compared to the EUR892 million at the end of 2011.

Now let me give you an update on our debt on slide 20. As per the end of March 2012, we had short and long-term debt of EUR1.8 billion, and cash and short-term investments of EUR890 million. This resulted in EUR874 million of net debt at the end of March 2012. Our balance sheet remains very healthy.

Our financial guidance for the full year 2012 is unchanged and as promised. CapEx for the year 2012 is expected to be around EUR110 million. Interest expenses, excluding interest income, expected to be around EUR80 million for 2012.

Our corporate costs for 2012 I expect to be approx EUR90 million, and amortization of intangible assets is expected at EUR50 million for 2012. The underlying tax rate for the second quarter 2012 is expected to be around 35%.

For Q2, 2012, please bear in mind that our gross margin is always seasonally impacted by comparable more holidays versus the other quarters. This has a negative impact on gross margin, especially in Germany and Sweden, where we essentially employ the people, and therefore need to pay our staff, even on days, off without being able to [bear declines].

Please also note that as of Q2, 2012, due to a change in management responsibility, Mexico, [lately] reported under emerging markets, are no longer within North America. The quarterly 2011 and Q1 2012 North American and emerging markets financials based on the new reporting structure are available under the financial section of the Adecco Investor Relations website.

With this, I hand back to Patrick.

Patrick De Maeseneire - *Adecco SA - Group CEO*

Thank you, Dominik. Let me finish with the outlook for our business.

We exited the first quarter of 2012 with an organic revenue decline of 1% in March, adjusted for business days. Revenue developments in April were a touch weaker. North America continued to hold up well, while revenue developments in France remained similar as in Q1.

Elsewhere, the picture is also diverse. Within Europe, revenue growth in Germany & Austria and the UK & Ireland remained in positive territory, while Italy slowed further down. In Japan, revenue growth slowed as outsourcing projects were successfully completed, and will no longer contribute as of the second quarter. In the emerging markets, revenue growth continues to be strong.

The business mix is moving in the right direction. The gross margin improvement in Q1, 2012, was strong also reflecting our focus on disciplined pricing. We of course also continue to focus on cost control to further optimize profitability and value creation.

As Dominik said, SG&A for the Group in Q2, 2012, is expected to remain approximately in line with the first quarter on an organic basis and before one-off costs.

Building on our strategic priorities, we continue to focus our efforts on constantly improving our HR solutions, delivery models and the cost base; and we remain convinced that we will achieve an EBITA margin of over 5.5% midterm.

And with this, I would like to open the floor for your questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question and answer session. (Operator Instructions). Participants are requested to use only handsets while asking a question. (Operator Instructions).

Paul Sullivan - *Barclays - Analyst*

Just a few questions, first of all, just on the gross margin. Given the comps, do you think we could see further improvement year on year in the Temp gross margin; i.e., above the 20 bps that you saw in the first quarter year on year? And that's assuming your sense of a touch weaker revenue growth going through into Q2.

That's the first question.

And then secondly, could you give us some more color or quantify the impact in the second quarter from the ending of some of those outsourcing contracts? And are there any margin implications we should be aware of there?

And then just finally, exit rates in Italy and Iberia, give a sense of those; and any further thoughts on cost cutting and margin development in Q2 in those markets?

Dominik de Daniel - *Adecco S.A. - Group CFO*

Let me just start with the Temp gross margin. Increase was plus 20 basis points in Q1, and in general, it's a positive trend because of the business mix.

Now for the second quarter, you will not see this. Why is this the case? Because in the second quarter, we have, especially related for Germany, but it is big business for us, May 1, we have one more public holiday. Last year, we had five public holidays. This year, we have six. And this has quite some impact on the overall Temp margin.

So for Q2, because of this, you will not see what you just asked whether a continuous trend towards the Temp margin from the level of the plus 20 basis points. But if you take this away, in general, we are positive for the Temp margin.

Patrick De Maeseneire - *Adecco SA - Group CEO*

I might take your second question on Japan on the ending of the outsourcing contract. We always said that these outsourcing contracts, because the temping industry really didn't pick up in the past years, but that the outsourcing contracts contributed to 6% to 8% of our revenues in the past year. Two-thirds of these contracts are now -- approximately two-thirds are now finalized, so that's going to be the impact.

Now you have seen also in the past when we had revenue decline in Japan, and much stronger than the numbers that we are talking about here, that we always were able to bring our costs very well in line with the business and that we could always protect profitability there at good levels.

And then on your third question on the exit rates in Italy and Iberia, we don't -- as you know, on these markets, we don't give the exit rates. But I clearly said in April that Italy was further declining, so you can imagine that the situation in Southern Europe is not good. And one of the reasons to be a touch weaker in April is because of Italy slowing down further in April.

Paul Sullivan - *Barclays - Analyst*

And your thoughts on margin in those markets?

Dominik de Daniel - *Adecco S.A. - Group CFO*

Also if you look to both markets, Italy and Spain, I think we always manage the margins in a way that even by some, let's say, more pressure in top line, that we manage in a way which is acceptable. So I think we have proven this also in history, and there, we have no concerns going forward.

Paul Sullivan - *Barclays - Analyst*

Right, thank you.

Patrick De Maeseneire - *Adecco SA - Group CEO*

You've seen also in Q1 that our EBITA margin still increased somewhat in Italy, even if we are down 2%, so we can manage that pretty well.

Paul Sullivan - *Barclays - Analyst*

Right, thank you.

Patrick De Maeseneire - *Adecco SA - Group CEO*

Next question, please.

Operator

Michael Foeth, Bank Vontobel.

Michael Foeth - *Bank Vontobel - Analyst*

Just one question. You talked about the impact on the profit margins in the UK in the second and third quarter related to Olympic sponsoring. I was wondering if you could be a bit more specific, or quantify the impact in the UK.

Dominik de Daniel - *Adecco S.A. - Group CFO*

We will not say what is the exact amount. It is not material for the Group, but it has the impact on the UK, and you will see this in the lower EBITA margin in the UK definitely in the second and the third quarter related to this.

Michael Foeth - *Bank Vontobel - Analyst*

Okay, thanks. That's all from my side.

Karin Selfors - *Adecco SA - Head of IR*

Next question, please.

Operator

Marc Zwartsenburg, ING Bank.

Marc Zwartsenburg - *ING Bank - Analyst*

First of all on gross margin in France, could you give us an indication on what happened there through the quarter, because you've been very price disciplined? Is the gross margin trending up there? What do you see in the market there?

That's my first question.

And then furthermore on France, could you give us an indication of the cost savings in the next quarters for the year of 2012; what we should expect now to kick in there for France?

And then my final question is on Germany. I think you mentioned, Dominik, for the full-year results that you had a bit of a timing issue with passing on these price increases and that we should see an uplift in the gross margin in January. Randstad was mentioning that there was quite some price pressure there in Germany in the first quarter. Could you comment on what you see there in terms of how you can pass on your price increases and what you see in the gross margin?

Thanks.

Dominik de Daniel - *Adecco S.A. - Group CFO*

Okay, Marc; Dominik speaking. So to the first question, our gross margin in France is up in Q1 40 basis points. Of course, this is also related to the fact that we are very price disciplined; that we work for some clients where we are not able to pass it on basically away and because it would be not value creating business. That's the trend.

When it comes to cost savings, there will be some cost savings now kicking in, but the majority of the cost savings will come at a later stage because our [whole] restructuring is -- 80% of the spending of the restructuring is in the second half of the year. You should not expect now material cost savings going into the next quarter.

When it comes to Germany, the 8.3% EBITA margin, I think I would not say this is a market where things are price aggressive, although [impression] that we pass on -- we passed on our increased salaries. What we said last time was as the salaries were only increased as of November and we had already an increase beginning of May last year for one or the other accounts, we said we make the price adjustment into January. And I think if you look to our overall EBITDA margin of 8.3%, I think this is a very solid margin in this market.

Marc Zwartsenburg - *ING Bank - Analyst*

So the price pressure that Randstad was seeing, is it something you also see?

Dominik de Daniel - *Adecco S.A. - Group CFO*

You have to talk to them where they see this. I can only tell you that the market in Germany is rational; that like in every country, in some or the other clients things are sometimes tougher. This is I think very normal, but this is how it is.

Marc Zwartsenburg - *ING Bank - Analyst*

It's not due to the discussion on equal pay in the press that there is a pressure on the gross margin that is intensifying a bit?

Dominik de Daniel - *Adecco S.A. - Group CFO*

It would be better because if equal pay comes, then the costs for temping will go further up. But we have the trend, but this trend we have seen here that basically more and more clients make their own equal pay, even before this collective wage agreement is done, because workers' councils saying, hey, if you want to have more temps, then make a internal equal pay agreement, and this was the growth of the last couple of years.

If I also look to Q1, especially in channels I think where the growth comes from, it is from the large clients who basically have their own internal equal pay called (spoken in German) where we are already based on equal pay, and there the growth is coming from. So this is then a mix effect. But if you look then to our profitability of 8.3%, up 20 basis points, we cannot say this is now here a [bring the margins down].

Marc Zwartsenburg - *ING Bank - Analyst*

No. Do you have a percentage for me that you say that this percentage of our revenues is already based on equal pay?

Dominik de Daniel - *Adecco S.A. - Group CFO*

Roughly 30% of the business.

Marc Zwartsenburg - *ING Bank - Analyst*

Roughly 30%. Okay. Thank you very much, Dominik.

Patrick De Maeseneire - *Adecco SA - Group CEO*

Thank you, Marc. Next question.

Operator

Jaime Brandwood, UBS.

Jaime Brandwood - *UBS - Analyst*

Just coming back to the other Temp gross margin, the 20 basis points, I understand, as you say, that there's been a lot of business mix and country mix driving that. Obviously, if France is down by 10%, that's quite helpful to the overall gross margin mix, given the lower gross margins in that country.

So I'm just wondering, do you have a sense more for the like-for-like development in your Temp gross margin? And I think you said the French Temp gross margin was up 40 basis points, but do you have a broader sense across the Group as to whether your like for like Temp gross margins are stable, or still down, or starting to trend up?

Dominik de Daniel - *Adecco S.A. - Group CFO*

Overall, it's a question what you now say like for like do you exclude the business mix channel Professional Staffing; do you through the country mix? Overall, I think pricing is pretty stable. In France, the pricing is up because we have no -- as you know, we passed on last year the social tax rebate, or the reduction of it, and this was done across the year. So of course, we finalized this very well in Q4, and it's going now into Q1. Of course, it's a price increase compared to the prior year, but we have also considered in the prior year and the Temp margin was down.

So I think overall pricing is rational. It's true that if you say France is down 10% and they have a low Temp margin, it's right, but you have to see emerging markets is up 15%, and they have also a very low Temp margin.

So the mix is trending in the right direction, and I would not say there is not like for like a totally different picture. You have then to look how we're doing when compared to competitors, and I think there we're doing very well.

Jaime Brandwood - *UBS - Analyst*

And this next question is a little bit speculative in nature, but given a socialist government in France, do you still think your estimate of EUR45 million of restructuring charges are going to be sufficient? And do you see potentially delays to the implementation of your cost cutting plans in France as a result of the government change there?

Patrick De Maeseneire - *Adecco SA - Group CEO*

Jaime, this is Patrick speaking. You have to see that we opted on purpose for the voluntary plan. It's not that we are closing down even one unit in one village or town and that we let go of 500 people, it's across the country. It was checked with local and national government officials.

And so the unions will of course do their job and we expect the agreement just after the summer, so let's say in the course of September, and for us this will not change. If we would have had let's say a forced plan in one direction, there could have been maybe some changes, you never know. But with a voluntary plan, we absolutely don't expect any changes here now.

Jaime Brandwood - *UBS - Analyst*

Okay, and then just two quick questions. One, why are you taking, or are you planning to take, any restructuring costs in Italy given the deterioration there? I guess I was surprised to see no restructuring costs in Italy.

And then the next question on DBM. Could you actually quantify for us the synergy benefit in Q1 on the DBM acquisition?

Dominik de Daniel - *Adecco S.A. - Group CFO*

First of all, if we look to Italy, of course, we are prepared to take up costs in Italy. Now that said, there are always different models. In the last recession, if you look back in 2009, we had no other choice than to announce a social plan because there was no opportunity to find ways with the workers' council to make it more in a flexible way. For example, something like (inaudible) and stuff like this.

And now today in Italy, this is possible. There is no need to announce a social plan, so there are opportunities to do this rather more flexible and efficient, and this is what we're going to do in Italy. Will it cost something? Yes, but this is really not so much that we have to announce now a big project out of it.

And then regarding the synergies for DBM, we're expecting EUR20 million for the full year. And if you divide this by 4, you need EUR5 million per quarter, and we are a little bit below; and the rest comes in the next couple of quarters so that we achieve this EUR20 million for sure in the full year.

Jaime Brandwood - *UBS - Analyst*

But already in Q1, you're at EUR4 million or something?

Dominik de Daniel - *Adecco S.A. - Group CFO*

It's already -- let's say the biggest piece is already coming into Q1. Why? Because we used the Q4 basically to reduce the headcount to make the French consolidation. There is still some remaining synergies are coming, but this is rather related more on the IT side and stuff like this, but the big chunk is already in in Q1.

Jaime Brandwood - *UBS - Analyst*

Thanks very much. Thank you.

Patrick De Maeseneire - *Adecco SA - Group CEO*

Next question, please.

Operator

Rolf Kunz, Bank Am Bellevue

Rolf Kunz - *Bank Am Bellevue - Analyst*

Hello, everybody. Again, on France, it's probably still a bit early, but are there any implications on your business from the new President? Do you expect some areas to change or to become easier? Do you have already some thoughts on this?

Thank you.

Patrick De Maeseneire - *Adecco SA - Group CEO*

Rolf, I would prefer not to speculate on this, but a couple of observations. If you -- first of all, I think we have to wait for the parliamentary elections and see what the outcome is there, because a president, any law that he wants to pass through has to go through the parliament and we have to see how the voting is there, knowing that Sarkozy will not stand up for election. And then we have to see how -- we will see how many votes were against him and how many votes were just for the other.

So that's one thing. Second, under any government in Western Europe, I think everybody's priority is now on keeping people in the jobs and creating new jobs. And you've heard that also in the speeches of Hollande. He was really focusing on keeping manufacturing in France and making sure also that jobs were going to be created, and having a kind of relaunch program.

And so what we see for our business, knowing that we are the step-up for a lot of unskilled people into the employment workforce, is that the subsidy cut, for example, that we have had last year on the lower wages, that I would be very surprised if that would happen again; or if in the future, on the contrary, not more stimulus is given to companies that really recruit people for a first job or recruit people at the lower levels.

So I don't see major changes whom ever runs the country. And if there would be changes they're going to be more on the positive side than on the negative side.

Rolf Kunz - *Bank Am Bellevue - Analyst*

Thank you.

Karin Selfors - *Adecco SA - Head of IR*

Next question, please.

Operator

Laurent Brunelle, Exane BNP Paribas.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

A quick question, if I may, first on the growth margin development. Beyond the negative Q2 impact, especially from the bank holidays and the Olympic games impacting the UK, do you still expect a nice growth margin improvement for the full year on mix shift effect?

Second, can you clarify the situation on the tax rates? I have not understood what do you expect in Q2 and why the effective tax ratio should go up to 35% in H2.

And lastly, have you seen any evidence of contraction in demand for Temp workers in some of your markets, and especially in France in April, please? Thank you.

Dominik de Daniel - *Adecco S.A. - Group CFO*

Laurent, Dominik Speaking. Can you repeat the last question? The first two questions we understood, but the last one the line was not good. Can you repeat your last question?

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Yes, sure. I was just trying to understand if you've seen any change of -- evidence of contraction in demand for Temp workers in any of your markets recently, in the recent weeks, and especially in the French markets. And can you tell me in France if you still expect growth below market?

Dominik de Daniel - *Adecco S.A. - Group CFO*

I'll take the first two questions; Patrick then the last one. First of all, if we look to the growth margin development, what we always said in the last couple of quarters is if Industrial business starts to slow down, which we have seen in the recent quarters, the business mix will improve. Professional Staffing is holding up well, especially relatively speaking, and we have no doubt that this will continue.

So also from a country point of view, there is a positive mix effect for the time being where we see currently this continues. So in general, we are positive for our growth margin evolution and our growth margin development. Of course, the acquisition added, and then as of -- year-on-year comparison as of September, DBM is then one year with us; this you have to take into account.

So besides the kind of bank holiday thing which is how it is, it is one day more, and then it's a Tuesday, so people take even a bridge day in Germany and in other countries. This is not helpful, but this just [this], and has nothing to do with the underlying business.

If we then look to the tax rate, the tax rate for the second quarter will be 35%. Now in Q1, we were coming a little bit lower in because we had a discrete event which helped there, and so therefore it was below 30%. So far second quarter, it will be 35%.

Most likely in the second quarter it will be a bit higher than in the other quarters because you have to see our tax rate today. It's basically a sum of underlying income tax plus the French business tax, and the French business tax is rather equal every quarter, whereas the income tax depends, of course, on the overall development. And as profit in Q3 and Q4 are bigger than in Q2, every year the tax rate in Q3 and Q4 will be lower than in Q2. That's the reason why the tax rate in Q2 is the 35%, a bit higher.

Patrick De Maeseneire - *Adecco SA - Group CEO*

I will take your third question on the contraction in certain markets, and then coming back to France. As already said, we -- what we see in April is a somewhat further decline in Italy; Germany somewhat slowing down compared to January. We've mentioned the exit rate in March, and that we continue to see. And then, of course, there is the effect of Japan with the outsourcing contract that we already discussed in one of the answers.

On the other hand, the emerging markets are continue to develop strong, and North America it's holding up very well. And like we said, France had the similar development in April as in Q1.

Now as far as your question is concerned of France being behind the markets, or our French business being behind the market, this is obviously the case. You have to make a distinction there between the total market and the number two and the number three player.

If we look to the total market there is also a gap. We are behind the market, but we are less behind the market than the number two or number three player.

Why is this? Because a number of big accounts on which we try to go in with higher prices were just moved over because we were not price aggressive, as we already said in Q3 that we wouldn't be, and that we would continue to push for price increases.

One of our top three customers, even at Group level, is an automotive client, it's Peugeot, and we have lost Peugeot. And on top of that, Peugeot has reduced a lot, and this has a tremendous effect, especially on our Adia business. And this is part of the reason, or a big part of the reason that we are behind the market.

So -- but you see from our numbers in Q4, in Q1, that we clearly go for profitability, and our focus will stay there.

So in Q2, there's still going to be a gap. How much it's going to be, okay, depends on what the other going to do. But certainly, to the market, if we look at the market numbers, there's still going to be a gap. But again, our focus is on profitability. This is for us the most important thing and that we do this restructuring now so to improve our cost base and to continue to have the leading profitability in France.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

Okay, clear. Thank you very much. Just on Germany, the exit rate was 8%, right, in March?

Patrick De Maeseneire - *Adecco SA - Group CEO*

Yes, 8%.

Dominik de Daniel - *Adecco S.A. - Group CFO*

No, it was 9%.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

9% okay.

Dominik de Daniel - *Adecco S.A. - Group CFO*

Germany was 9%.

Laurent Brunelle - *Exane BNP Paribas - Analyst*

9%. Okay. Thank you very much.

Operator

Tom Sykes, Deutsche Bank.

Tom Sykes - *Deutsche Bank - Analyst*

Sorry, could you just clarify the slightly slower growth in April? Does that include the step-down in Japan?

And then maybe, could you just give a bit more of color on the North American growth rates, please? Obviously, you've changed management and you've seen some improvement in IT. Could you maybe just go through, say, the Professional profits and Industrial in the US, please?

Dominik de Daniel - *Adecco S.A. - Group CFO*

If we look, if we first looked a touch lower into April for the whole Group, where does it come from, it basically, as Patrick said before, we see Italy weaker again given the overall development, economic development over there. And then in markets there, we had, let's say, I would say rather strong growth like Germany. And in the UK, we still grew nicely in April, but the growth rate is slowing down there.

And of course, in Germany, it's also that base effect becomes tougher in this respect and in this region. And then it is also Japan, because in Japan, given the fact that a big part, two-thirds of our outsourcing contracts ended end of March, this has an impact then on the April growth rate. On the other hand, North America is really -- holds up well, so this is doing well in North America.

If we then have a look to our business itself in North America, overall, General Staffing is still doing okay in North America growing 3%; there the growth is strong. And Office business, Industrial business is now flat, which is the underlying development, but overall growing still quite well in this respect.

But it's -- it was in Industrial business [margin] Q4 minus 6%, so flat development is from this point of view even an improvement.

Our Finance business continues to do very well growing now double digit in North America, 11%; Medical & Science is up 13%; o from this point of view quite well.

Engineering & Technical minus 1%; same decline rate like Q4. But there, you really have to consider that our growth was very strong in Q4, 2010, more than 30%; and in Q1 last year, also massively above 20% growth development.

Patrick De Maeseneire - *Adecco SA - Group CEO*

Tom, as far as the change in North America is concerned, like you said, you pointed out on the IT side, we are now close to flat on the US IT. We're still behind in Canada. So we clearly see a gradual improving there, and you will continue to see that.

Now as far as the change in management is concerned, is this because of being behind the markets? Absolutely not, because you have to accept if you are in 63 countries with all kinds of different business lines, at some times, at some periods, you are somewhere behind the markets. This is always the case.

I hope you look at the overall results. And also, in North America, like Dominik has already pointed out, our result is good there. And if you look at our profitability with 4.4%, I think it's pretty strong compared to what some others are doing there.

Now the change in management indeed has to do, of course, with personal discussions that I had over the years with Dick about operational involvement, about fast decision making, and we clearly saw it in this IT being behind the market that we could have been somewhat more efficient and have more sense of urgency.

But more than that, I really would like not to say, because this is a personal thing between me and Dick, and we're happy that Bob Crouch is joining us. He has 15 years with MPS as a background, and this will work out fine.

Tom Sykes - *Deutsche Bank - Analyst*

Do you think there is the opportunity for your North American business to start accelerating a bit again, or do you think that demand is such that you're going to be hovering around the slightly growing level rather than --?

Dominik de Daniel - *Adecco S.A. - Group CFO*

If we look, it's really holding up well, and the economic environment is definitely better than Europe, there is no question.

And of course, given our investments which we have done in the IT area, this should work out. And [ICP], if you look to all North America, it is around 18%. So it has impact, of course, and trend into April, General Staffing is holding up well.

So we have to see how overall things are going on, but overall, we are positive for the US.

Tom Sykes - *Deutsche Bank - Analyst*

Okay, thank you. And then just putting together everything, if you did see, I don't know, your organic growth rate falling to minus 4%, minus 5% or so, and what you've said about protecting your profitability, obviously, that would probably come a bit from Japan, Southern Europe, obviously France, given where the sort of weaker growth rates would come from, what would you think your operational gearing would actually be if you were to see --?

Patrick De Maeseneire - *Adecco SA - Group CEO*

The point is there are -- it has to be a lot of assumption, because every labor market is different. In some labor markets you can take cost easier out, and others it's a little bit harder. But what I can tell you is that if we look back to 2008, in 2008, we had the first part of the more severe downturn. We had a 5% sales decline. And in this year, we were able to have the sales profitability.

Of course, this has also to do with the mix, the uplift and businesses are picking up, and so on. And we have in general, let's say, the view that up to a sales decline of 5%, we have more or less a stable profitability.

Now that said, it depends a little bit where does it come from, and if Outplacement then picking up or not, today Outplacement is adding a lot to our bottom line, but this is rather because we're doing a very good integration of the DBM. Underlying, it is still minus 1% the Outplacement business.

So we have to see how the year goes on, but we are very committed to protecting our profitability, and it is a function of mix. This is a function of disciplined pricing, and it's a function of taking out costs whenever it is needed.

Tom Sykes - *Deutsche Bank - Analyst*

Okay, great. I'll leave it there. Thanks very much.

Patrick De Maeseneire - *Adecco SA - Group CEO*

Thank you, Tom. Next question, please.

Operator

Kean Marden, Jefferies.

Kean Marden - *Jefferies & Co. - Analyst*

Most of my questions have been asked, and I've been trying to take myself out of the queue. But while I'm here, could you possibly run through your Perm experience in the first quarter? Because if I look at my notes, I think you had flagged at the Group level, Perm growth was 7% in January. For the first quarter, that slowed to plus 2%.

You flagged, in your comments, that France was negative, minus 7% in the first quarter, but I'm wondering if you can fill in some of the gaps and also just confirm that that downwards trend is probably accelerating.

Patrick De Maeseneire - *Adecco SA - Group CEO*

One of the countries where we are down is the UK where we are down 10%, but still at a very good level. And recall that I said that we were up 40% in Q1 last year, also thanks to the Olympics. We are holding up pretty well in North America with plus 14%. France is indeed down 7%. Emerging markets are still up. And then Japan and Germany are a bit less. But those are the top six markets that we are having; UK, North America, France, emerging markets, Germany and Japan.

So all in all, if you see the increase that we had last year, which was a very strong double digit of above 30%, we are happy with the development now.

Kean Marden - *Jefferies & Co. - Analyst*

Are you flagging a potentially negative exit rate coming out of the quarter?

Dominik de Daniel - *Adecco S.A. - Group CFO*

No. The thing is [General Staffing] where we said it's a similar development. We said not it's exactly 7%. But the growth rate at the end of the quarter is still slightly positive.

Kean Marden - *Jefferies & Co. - Analyst*

That's great. Thank you for that, Dominik.

Operator

Alain Oberhuber, Mainfirst Bank AG.

Alain Oberhuber - *Mainfirst Bank AG - Analyst*

Just two questions about the US Professional Staffing which was Q1 excluding -- what would have been the growth there excluding the IT business? I assume it's still -- the business overall is still 50%.

And, secondly, about France, how much market share did you lose? And do you think the loss of market share in magnitude will be similar in Q2 as in Q1?

And the last question; you showed pretty strong growth in Finance & Legal as well as Medical & Science. Is that a seasonal business, or do you think it will be throughout the next quarter a longer-term trend?

Patrick De Maeseneire - *Adecco SA - Group CEO*

Well, I will start with answering your second question about the market share in France, and Dominic will then take your question on the US Professional Staffing and the F&L business, the Finance & Legal business, which is linked.

On the market share in France, again, if we compare ourselves to the total market, you could say we are 3 percentage points/3.5 percentage points below the market, because the number two player and number three player in the French market are doing somewhat better than the market and we are doing somewhat worse than the market. And a big explanation, as I said, is Peugeot have moved over from us to the number two player and the number three player. And if it's one of the top three accounts of Adecco as a Group, you can imagine that this has quite an important impact.

Will it stay the same in Q2? Yes, it will, because this effect is, of course, for the whole year. We lost Peugeot towards the end of last year, and Peugeot also heavily reduced, so this -- and this is one of the effects.

The other effect, and this makes up for the difference, is [Weileiber] customers that we have let go because of pricing reasons. And, again, once they're gone, they're gone. And we will, in the future, and that's why we also want to segment our channel into large, medium and small accounts, we will in the future broaden our customer base also towards more medium and smaller accounts, and by this increasing our business again, and also increasing our profitability.

But this is something that takes time as some of these big accounts, where we couldn't pass on the price increases, or where we didn't go in with higher prices than the competition we lost, and they are so big that we cannot make up for this immediately. So you will see, indeed, the similar effect in the second quarter.

Now on the US Professional Staffing, how the other businesses are doing without the IT and whether the F&L business is seasonal, I pass on to Dominik.

Dominik de Daniel - *Adecco S.A. - Group CFO*

The General Staffing business in the US, we have 50% General Staffing, and 50% Professional Staffing. General Staffing business is up 3%. Professional Staffing overall is flat, primarily caused by IT. So the growth rate would be 1.5% higher if we exclude the IT business roughly.

Now the growth in Finance and Medical & Science is not from a seasonal point of view. I think things continue to do well and we have no reason to believe that this growth will not continue in both businesses in the US.

Alain Oberhuber - *Mainfirst Bank AG - Analyst*

Great. Thank you very much, Patrick and Dominik.

Operator

Teun Teeuwisse, ABN Amro.

Teun Teeuwisse - *ABN Amro Bank - Analyst*

I have a couple of questions from me left, and first of all, it's on the profitability you reported in France and Germany, because, did you have any impact there of the increased wage taxes in France and the higher salaries you pay during holidays in Germany?

Second question on Germany is if you can indicate what volume growth has been in Germany.

And a final question is on the Lee Hecht Harrison business. You report a quite high margin now, 30%. Is that a sustainable margin, given a flat growth environment, or were there any special items in that?

Dominik de Daniel - *Adecco S.A. - Group CFO*

So first of all, if we look to Germany, France, so there are no impacts from holiday pay, or something like this, because these things should be included if people make holidays. So there's absolutely no impact from this.

Now if we look to the volume growth and sales growth, there is, of course, a clear wage inflation. So I would say 10% growth organically is half/half; half is volume, half is price, which has all to do with the business mix because if now Professional Staffing is growing faster, there is, of course, an impact; and if this equal pay account is growing faster, it has a positive impact. So it's roughly half/half.

Coming to the profitability of our Outplacement business, it's basically you have to see in the Outplacement business the strong quarter of Q4 and Q1. The rather weaker one is the second quarter, and the weakest is Q3. And this you should take into account when you model the profitability in every single quarter.

So basically what I'm saying is the 30% profitability you cannot have in the second, in the third quarter, especially in a kind of flattish environment. So the profitability in Q2/Q3, will be lower, and in Q4, this is a fair assumption to have a similar profitability in Q1.

Teun Teeuwisse - *ABN Amro Bank - Analyst*

All right, but going back to my first question, I understood from Randstad that they had some pressure on their profitability in Germany because you have to pay higher salaries now during holidays. There has been some sort of ruling. But you didn't see that impact?

Dominik de Daniel - *Adecco S.A. - Group CFO*

What we are trying to do, when we see that our cost base or indirect costs going up, we try to pass this on.

Teun Teeuwisse - *ABN Amro Bank - Analyst*

Okay, all right. Well, thank you very much.

Patrick De Maeseneire - *Adecco SA - Group CEO*

So, ladies and gentlemen, thank you for attending this call and for your interest in our Company. Our next call is on August 9 when we will announce the Q2 results.

And I also would like to take the opportunity here to already invite you to our Investor Days which will take place in Paris on September 19 and September 20, and Karin will come back to you with more details in due time.

So thank you very much again. Have a good day, and talk to you soon.

Operator

Ladies and gentlemen, the conference is now over. Thank you for choosing the Chorus Call facility, and thank you for participating in the conference. You may now disconnect your lines. Good bye.

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